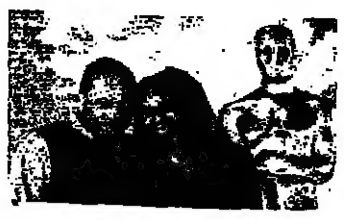
هكذا من الأصل

FINANCIAL TIMES

Start the week with...



Hollywood
Behind the scenes at the Oscars
Nigel Andrews, Page 13

Media futures
Superhighway to heaven
Martin Mulligan, Page 11

Today's surveys
Pharmaceuticals
Latin American Finance
Separate sections

World Business Newspaper

MONDAY MARCH 25 1996

Taiwan and China may meet after Lee's election win

China and Taiwan raised the prospect of a high-level bilateral summit following Taiwan's first democratic presidential election at the weekend, in which the Nationalist party's Lee Teng-hui (left) retained his post with 54 per cent of the vote. After weeks of invective and war games aimed at intimidating voters, Beijing appeared anxious to signal that it was now up to Taiwan's leaders to make conciliatory moves towards resuming of cross-strait talks broken off last June, following President Lee's visit to the US. Page 16; Editorial Comment, Page 15

Gazprom, Russia's richest company and the world's biggest natural gas producer, is struggling to find foreign buyers for the 9 per cent stake it has put up for sale. Page 17

Turkey signals shift in Aegean dispute: Turkish prime minister Mesut Yilmaz said he would not rule out referring disputes with Greece in the Aegean to international arbitration, signalling an important shift in policy following efforts by European Union member countries. Page 16

Belarussians oppose Russian union: About 30,000 protesters demonstrated in the Belarussian capital, Minsk, against the planned union with Russia. Page 2

Morgan Stanley, the US investment bank, has proposed to Eurotunnel a radical scheme for raising funds by issuing bonds secured on a portion of the channel tunnel operator's revenues. Page 18; Lex, Page 16

Glencore, the Swiss group that is one of the world's biggest international traders, is expecting to raise $300m to $41-4m by selling its US aluminium business, Century Aluminium. Page 19

Russian launch for Asian satellite: Asiasat, the Hong Kong-based satellite consortium partly owned by China's main investment vehicle, is to use a Russian rocket for next year's launch of its Asiasat 3 satellite rather than China's troubled Long March launcher. Page 4

Germany calls for tough currency rules: The German finance ministry has suggested rigorous rules for relations between European Union countries in and out of monetary union. Page 3

Lloyd's wins US reprieve: Efforts by Lloyd's of London to head off legal action in the US were boosted with an agreement by Louisiana regulators to delay bringing a case alleging that investment in Lloyd's was "mis-sold". Page 6

Japanese coalition passes test: Japan's coalition government won a landslide victory in its first by-election since taking office in January, opening the way for an end to the three-week deadlock over the national budget. Page 4

Investment in east Europe doubles: Foreign direct investment in central and eastern Europe almost doubled last year to nearly $14bn, as the region began to compete more strongly with Asia and Latin America. Page 3

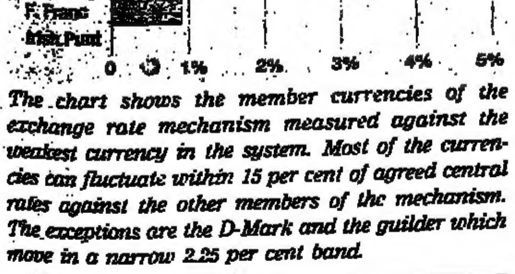
Israel names spy chief: Israeli prime minister Shimon Peres appointed his military secretary, Major-General Danny Yatom, to head the country's Mossad spy agency. The former commando will be the first Mossad chief whose identity is not a state secret. Page 4

Venezuela and IMF near deal: The Venezuelan government expects to reach agreement in principle soon on an economic adjustment programme with the International Monetary Fund, from which it is seeking a $3bn loan. Page 5

Arrest embarrasses Seoul government: The arrest of a close aide to South Korean president Kim Young-sam on corruption charges has embarrassed the government less than three weeks before a general election. Page 4

European Monetary System: Against the backdrop of a weak D-Mark, and exceptionally quiet foreign exchange markets, there was no change to the order of currencies last week. The spread between strongest and weakest currencies shrank from about 5 per cent to around 4.5 per cent. This week the focus will be on the Bundesbank council meeting, with a reasonable expectation that there may be a cut in interest rates. Currencies, Page 27

EMS: Grid March 22, 1996



The chart shows the member currencies of the exchange rate mechanism measured against the weakest currency in the system. Most of the currencies can fluctuate within 15 per cent of agreed central rates against the other members of the mechanism. The exceptions are the D-Mark and the guilder which move in a narrow 2.25 per cent band.

Britain to restore confidence in beef ■ EU set for tougher controls

UK may destroy millions of dairy cows in BSE fight

By George Parker, Deborah Hargreaves and Gillian Tett in London and Caroline Southey in Brussels

A large part of Britain's dairy herd may have to be destroyed to help restore public confidence in the safety of beef, Mr Douglas Hogg, agriculture minister, admitted yesterday.

Mr Hogg said he was considering ordering the slaughter of up to 4.5m older cows in the country's 11m herd – a move which could cost billions of pounds in compensation and severely widen Britain's trade deficit.

Mr Franz Fischler, EU Commissioner for agriculture, is today expected to announce tougher controls on British beef production in a bid to prevent the collapse in demand for British beef hitting beef producers in the rest of the EU.

Mr Fischler's proposals could include selective slaughtering of British cattle as well as a temporary ban on the import of British beef to the EU. The measures will be aimed at shoring up consumer confidence in the beef industry and stemming the dramatic falls in beef consumption.

Reports and analysis Page 6

- Roast beef off menus
- Illicit trade disclosed
- Swiss condemn ban

Press review, Page 2; Editorial Comment, Page 15; Lex, Page 16

The British government hopes the European Commission will provide an emergency aid package to help pay for the slaughter programme – designed to allay public fears about the risk of BSE, or mad cow disease – but the longer term impact on the British economy could be severe.

The slaughter of the dairy herd would mean that millions of pints of liquid milk would have to be shipped in daily from the continent and Ireland until the British herd had been fully restocked.

"Any move like this would be a real calamity," said Mr Ian Shepherdson, UK economist at HSBC, the banking group and gilt-edged market maker.

HSBC calculates that a sudden loss of the domestic dairy industry could increase the trade deficit by £6bn ($9.2bn) from its 1995 level of £11.5bn. This swing would potentially reduce overall gross domestic product by up to 1 per cent during the course of a year, it claims.

Ministers have been forced to consider drastic options to restore public confidence after scientists linked BSE with the fatal human brain condition, Creutzfeldt-Jakob disease.

Today Mr Stephen Dorrell, the health secretary, will report on the latest findings of the government's BSE advisory committee, which met throughout the weekend to consider whether children are particularly at risk from eating beef.

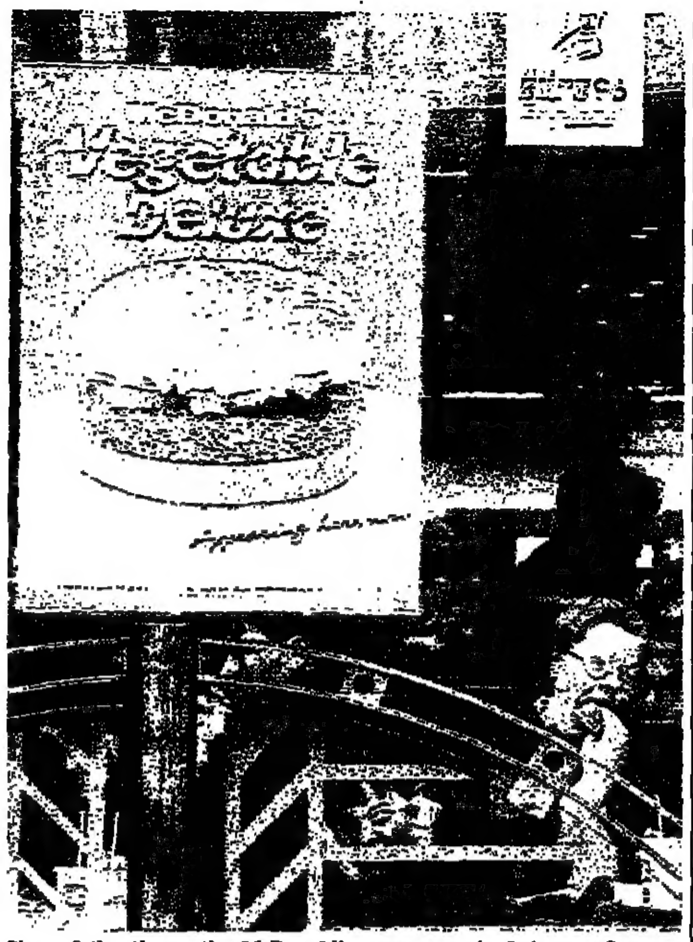
Mr Hogg yesterday said "a slaughter policy is not excluded" and confirmed that he was looking particularly at culling cattle over the age of 30 months.

Speaking on the BBC's On the Record, Mr Hogg said: "I am certainly focusing on the question of the older cow, the beast above 30 months. I think that is the class of beef we should look at first."

Mr Hogg said there had been very few cases of BSE confirmed in cattle aged under 30 months, and that even in the few cases that had been identified the level of infectivity was low.

The government's spongiform encephalopathy advisory committee (SEAC) also identified older cattle as the main source of risk, and advised last week that all carcasses of cattle aged over 30 months should be deboned. In Brussels, Mr Fischler is likely to call for tougher controls on the removal of tissues which carry BSE, such as the spinal chord and brains. Mr Fischler will also

Continued on Page 16



Sign of the times: the McDonald's restaurant in Leicester Square, London, yesterday

Picture: Associated Press

German state polls provide new hope for Kohl

By Peter Norman in Bonn

Chancellor Helmut Kohl's government was yesterday given a new lease of life after the liberal Free Democrat party, the junior partner in the ruling coalition, made an unexpectedly strong election showing in three of Germany's states.

The main opposition SPD failed to make headway after attempting to exploit fears over European economic and monetary union.

After losing 12 state elections in a row, the FDP cleared the 5 per cent hurdle required to enter state parliaments in Baden-Württemberg, Rhineland-Palatinate and Schleswig-Holstein.

Early estimates based on exit polls suggested that in Baden-Württemberg, the party won nearly 10 per cent of the vote.

The results were a setback for the main opposition Social Democratic party, which saw its share of the vote fall in all three states in spite of last November's dramatic change in the national party's leadership, when Mr Oskar Lafontaine displaced Mr Rudolf Scharping as chairman.

The SPD's failure to make headway in Baden-Württemberg suggested voters are not easily swayed by populist campaigns. Mr Dieter Spöri, the SPD candidate for state premier, sought first to exploit voter fears of Emu and then concern about immigration of ethnic Germans from the former Soviet Union in his campaign for an SPD-Green coalition.

The SPD recorded its worst-ever result in the state, with around 25 per cent of the vote. Mr Spöri said last night he would step down as state party leader.

The SPD also lost its overall majority in Schleswig-Holstein.

Yesterday's poll marked the end of the "grand coalition" of Christian Democrats and SPD which had governed Baden-Württemberg since 1992. In spite of boosting CDU support to around 41.6 per cent from 39.6 per cent four years ago, Mr Erwin Teufel, CDU leader, was unable to realise his ambition of gaining an absolute majority.

He said last night he would

Continued on Page 16

Fischler: angered by statement

Brussels in bitter attack on UK

By Deborah Hargreaves in London and Caroline Southey in Brussels

The European Union's agriculture commissioner has launched a bitter attack on the British government's handling of last week's announcement on the safety of beef.

Mr Franz Fischler wrote to Mr Douglas Hogg, Britain's agriculture minister, expressing his anger over Britain's lack of consultation with the Brussels on the issue.

Mr Fischler accused the government of failing to prepare adequately for the reaction to its public statement last Wednesday on a possible link between BSE and human brain disease.

The letter is likely to embarrass the government, which has faced increasing criticism in Britain over its failure to blunt the impact of its announcement.

Although a spokesman for Mr Fischler would not confirm the letter, EU officials point out there has been growing concern in Brussels about the potentially devastating effect the developments in Britain might have on the whole EU beef industry.

Mr Fischler begins the letter by saying he was "rather surprised" that Mr Hogg's representative at an EU agricultural ministers' meeting on March 18-19 "did not say a word to me about your impending announcement on BSE".

His letter continues: "May I take the liberty to add that I would have expected you to consult us [the Commission] before taking such a decision."

Mr Fischler's attack extends beyond concerns about the Commission's involvement in the affair to the British government's failure to make the necessary preparations ahead of the announcement. "If the new findings of your scientists are as troubling as they sound, then measures you announced seem insufficient," the letter says.

"Secondly, if, on the other hand, apart from the discovery of a new and worrying strain of CJD [Creutzfeldt-Jakob disease], your findings do not add much to the existing body of knowledge about a link with BSE, then a more careful reaction might have been preferable."

Mr Fischler, promising to act

Continued on Page 16

Offsetting deposits will ease Japan funding problems

Britain set to back pact on easing banks' capital needs

By George Graham in London

UK banking officials are expected to give the go-ahead tomorrow to a legal agreement that could slash hundreds of millions of dollars from the capital requirements of international banks and ease the funding difficulties of Japanese banks.

The master agreement, drawn up by the British Bankers' Association, would allow any two banks that sign up to offset their deposits with each other, whatever the currency, if either should default.

"What the agreement says is that if I lend you $100m in sterling and you lend me $100m in yen, we are even," said one banking expert closely involved with drafting the accord.

Although drafted in the UK, the agreement is designed to apply in most countries and provides a framework which banks from all around the world can join to reduce their risks in the interbank deposit market.

A large British bank with perhaps £25bn to £30bn ($38bn to $46bn) in interbank deposits could reduce its balance sheet by several billion pounds through this kind of netting agreement, and save between £50m and £60m a year on the cost of maintaining a capital cushion to cover its exposure.

But the benefits could be more dramatic for the Japanese banking system, which accounts for more than one quarter of the $8,200bn of interbank deposits between the Group of 10 major industrialised countries.

Many Japanese banks have had to pay a premium to attract interbank deposits over the last year as non-Japanese banks have cut their exposure limits to the country because of fears over the stability of Japan's financial structure.

Widespread application of this kind of netting agreement could reduce the credit risk to which other banks are exposed, making them more willing to lend to Tokyo.

While the right to offset debits and credits is one of the oldest asserted by bankers everywhere, it has been difficult to make the offsetting claims stand up in court against receivers and liquidators, whose interest is to call in every deposit the defaulting bank has made while not paying back the deposits it holds from other banks.

Mr Richard Sykes QC, a leading expert on this area of law, has delivered an opinion that the agreement would be enforceable against a liquidator or an administrator.

The BBA has also been working with the Bank of Japan and the Japanese law firm of Mitsui, Wani, Maeda and Yasuda, and has instructed lawyers in the US, Singapore, France, Germany and Switzerland, in an effort to ensure that the master netting agreement is legally watertight in all the main interbank markets of the world.

Netting agreements are already widely used for financial instruments such as swaps, and have slashed billions of dollars from the potential exposure that banks might otherwise have to report.

National Westminster Bank of the UK, for example, revealed in its annual report last week that it had reduced its derivatives exposure by more than £4bn through the use of netting agreements.

If widely adopted, the master netting agreement could radically change the way the interbank deposit market operates.

A bank could greatly reduce its overall exposure by placing its deposits with banks from which it had already received deposits.

It would, therefore, be discouraged from placing deposits with whatever institution promised the highest rates on a given day.

CONTENTS

Albania	LEK 220	Germany	DM4.00	Lithuania	Lts 15.00	Qatar	QR13.00		
Austria	Sch37	Greece	Dr400	Lux	LFr75	S.Arabia	SR12		
Bahrain	Din1.250	Hong Kong	HK$20	Malta	Lm0.65	Singapore	S$4.30		
Belgium	BFr75	Hungary	Ft230	Morocco	MDh16	Slovak Rp	Sk65		
Bulgaria	Lw130.00	Iceland	IKr230	Neth	Fl 4.75	S. Africa	R12.00		
Cyprus	C£1.20	India	Rs75	Nigeria	Naira90	Spain	Pta250		
Czech Rp	Kc60	Israel	Shk7.90	Norway	NKr20.00	Sweden	SKr20		
Denmark	DKr18	Italy	L3200	Oman	OR1.50	Switz	SFr3.70		
Egypt	E£5.00	Japan	Y500	Pakistan	Rs40	Syria	S£65.00		
Estonia	EKr 22	Jordan	JD1.50	Poland	Zl 5.50	Tunisia	Din1.750		
Finland	FM15.50	Kuwait	Fils.650	Portugal (m'land)	Es240	Turkey	L70,000		
France	FFr11.50	Lebanon	LL3,000			UAE	Dh12.00		

No 32,942

LONDON · LEEDS · PARIS · FRANKFURT · STOCKHOLM · MADRID · NEW YORK · LOS ANGELES · TOKYO · HONG KONG

Belarussian protesters hit at plan to link with Russia

Plans to bring Minsk and Moscow together draw criticism from other ex-Soviet republics

By Chrystia Freeland in Moscow

Tens of thousands of protesters yesterday thronged the streets of Minsk, the Belarussian capital, to oppose the new union that the leaders of Russia and Belarus plan to form next week.

The 30,000-strong demonstration, the largest public protest in Belarus since 1991, suggests that efforts to rebuild the dismantled Soviet empire ahead of Russian presidential elections could run into a wave of popular opposition in the non-Russian republics.

Riot police attacked dozens of the protesters with truncheons, leaving several unconscious on the snow. Since coming to power on a pro-Russian platform two years ago, Mr Alexander Lukashenko, the Belarussian president, has earned a reputation for authoritarianism, clamping down on critical journalists, nationalising commercial banks and shooting two American pilots whose racing balloon ventured into the republic's airspace.

On Saturday Mr Lukashenko and Mr Victor Chernomyrdin, the Russian prime minister, announced that their two countries would form a union on April 2.

Although it is not yet clear how complete the merger will be – both leaders said their countries would remain fully sovereign – it is the most ambitious step towards reintegration since the collapse of the Soviet Union in 1991.

The move was seen as an effort by Mr Boris Yeltsin, the Russian president who is running for re-election on June 16, to outdo the promises of his communist rivals to rebuild the USSR.

Nostalgia for the Soviet Union is widespread among Russian voters, but the planned Belarussian-Russian union drew immediate criticism from some of the more independent-minded former Soviet republics, and it could raise concerns in the west about the re-emergence of an imperialist Russia.

Earlier this month, the communist-dominated Russian parliament provoked an international outcry by annulling the treaty which dismantled the USSR.

Communist and ultra-nationalist politicians in Russia said over the weekend they would support the new union treaty with Belarus, which requires parliamentary approval in both states.

"We have said for the first time that it's time to stop duping the people," Mr Lukashenko said after agreeing on the merger with Mr Yeltsin. "Let's conclude a pact about a real union with supranational institutions and a common budget to fund common programmes."

Mr Lukashenko said there would be a transitional period of 18 to 24 months before the union assumed its full powers. He said a Supreme Council made up of the leadership of the two countries would administer joint programmes through a common budget.

Nationalist politicians in Ukraine, seen as the most important bulwark against the re-emergence of an imperialist Russia, condemned the planned merger with Belarus. Politicians in other independent-minded former Soviet republics kept aloof from the plans for speedy re-union. Mr Islam Karimov, the president of Uzbekistan, cautioned against "excessive" efforts at re-integration and warned that "nobody should expect all-powerful Russia to carry others on its shoulders".

Kazakhstan, Kyrgyzstan, Russia and Belarus are scheduled this week to sign an accord on closer political and economic co-operation, but this is expected to fall short of the Belarussian-Russian merger.

● Less than three months ahead of the presidential ballot, Mr Yeltsin continues to climb in the opinion polls, a survey showed yesterday, but Mr Gennady Zyuganov, the communist leader, is still the front-runner.

According to a poll released yesterday by the All Russian Centre for Public Opinion Research, 29 per cent of voters would support Mr Yeltsin in a run-off with Mr Zyuganov, and 37 per cent said they would back the communist candidate.

The latest survey confirms a steady rise in Mr Yeltsin's popularity since the beginning of the year. In January, only 21 per cent said they would back him in a run-off against Mr Zyuganov, while in February the figure was 27 per cent. By contrast, Mr Zyuganov's support appears to be gently waning. In January, 41 per cent said they would back him against the president, and in February, 39 per cent.

Belarussians wave national flags during their protest in Minsk yesterday Reuter

EUROPEAN PRESS REVIEW

Mad cows and Englishmen

FRANCE

By David Buchan

The reaction of the French, who eat more British beef – and also more beef of any source – than any other Europeans, to Britain's official scare over mad cow disease and its potential threat to human health has been a rare mix of bafflement, outrage, smugness, worry, admiration and even a bit of humour.

A cartoon in Saturday's *Le Monde*, which admittedly is hardly the French farmer's daily, had one cow saying to another: "For sure, we must have caught this off humans." Oddly, no one tried to make any pun on "les rosbifs"; this is what the French call Britons in the way the latter call the former "frogs", but even the French hardly eat frogs any more, and roast beef is coming off the British menu.

The bafflement expressed by a number of French newspapers at the UK government's action lies in the fact that many of them rushed to interview Professor Dominique Dorment, the country's foremost researcher into Creutzfeldt-Jakob disease. He told *Libération*, "Up to now there is no proof of a strong correlation between Creutzfeldt-Jakob and the consumption of mad cows", and relayed the same message to *Le Figaro* and other newspapers.

The outrage, strongest in the regional press which counts more farmers among its core readers, has been of two kinds. The *République du Centre*, clearly worried about its local beef market, complained that, far from showing British phlegm, UK ministers had created "panic reactions... by divulging explosive scientific information".

But other papers were more outraged that, having divulged such information, the UK farm minister should then attack France and other countries for "disproportionate, and probably illegal, action" in banning UK beef imports. *La Montagne*, in the Auvergne, said the UK authorities only had themselves to blame, while *La Charente Maritime*, in Angoulême, wondered how the same UK farm minister could complain of over-reaction when he himself was ready to contemplate, if need be, slaughtering every cow on his island. One other local paper, *L'Echo Républicain*, noted individual national import bans had incurred the wrath of Brussels, so making "Europe a bit mad". Politically, it added, "this is a situation which will not necessarily displease our British friends".

Determined not to lose their *sang froid*, even if British officialdom has lost its phlegm, French ministers, officials and government veterinarians have been using their press to pump out a message of reassurance. The general line is that nothing like the scale of the outbreak of mad cow disease in the UK – more than 150,000 cases – could happen in France, because of stricter sanitary controls, and where cases have occurred – 16 since 1991 and mainly in Brittany – they have all been traceable to imports of contaminated UK animal feed before 1989.

In the midst of all this, however, came from *France-Soir*, the national daily, a note of praise for the UK and a warning against French self-satisfaction. "One must really recognise the almost suicidal courage of the UK government for putting its concern to preserve the health of its population – and that of other European countries – before its economic interests," it said.

"Before condemning perfidious Albion without appeal – an ancient French reflex – our compatriots should remember that in the recent past our officials have taken their time, and then some, to stop a scandal more serious for the health of our citizens than this affair of mad cows: the Aids-contaminated blood". It was referring to the contaminated blood transfusions given haemophiliacs in the mid-1980s, for which former ministers, even a former prime minister, are still due to stand trial in France.

Beef crisis, Page 6

Bosnian prisoners freed after pressure

By Paul Wood in Belgrade and Chrystia Freeland in Moscow

Bosnia's former warring parties grudgingly stepped up the release of prisoners over the weekend after a warning from the international community that reconstruction aid could be delayed unless the Dayton peace agreement was observed. The warning was issued at a meeting in Moscow of foreign ministers from the the contact group – the US, Russia, Britain, France and Germany – which sponsored last year's accord.

Late on Saturday, Bosnia's Moslem-led government freed 109 Bosnian Serbs from a jail in the northern town of Tuzla. But last night, the International Committee of the Red Cross said it was still negotiating for the release of more than 100 prisoners.

The ICRC believes the Bosnian government is still holding at least 26 prisoners, the Croats 51 and the Serbs 28. All captives were supposed to have been freed in mid-January.

However both the Bosnian government and the Serbs claim that some or all of their remaining prisoners should remain in detention because they are war criminals.

Mr Victor Chernomyrdin, the Russian prime minister, warned fellow members of the contact group over the weekend that there could be a new outburst of fighting.

"There is still a long way to go to genuine reconciliation," he said, calling for greater co-operation among all the nations of Europe.

"We must all learn the lessons of 20th century Balkan history – the creation of opposing coalitions is fraught with tension and war," he said. "The most effective and reliable path is through the development of real pan-European co-operation."

In another sign of growing international impatience with the patchy implementation of the Dayton accord, Nato forces closed four illegal check-points in Bosnia, two operated by the Bosnian government and two by the Bosnian Serbs.

A stock market for Macedonia

Skopje is to get trading off the streets and into a bourse, reports Kerin Hope

Fresh from passing exams set by a UK securities firm, Macedonia's new stockbrokers are holding boisterous mock trading sessions to prepare for the launch on March 28 of the Skopje stock exchange.

About 80 would-be brokers have qualified to trade shares in privatised and "socially owned" companies, together with government and corporate bonds, on the bourse, a renovated conference room at a bankrupt trading company.

Mr Evgeni Zografski, stock exchange chairman, says: "We don't expect a rush of listings. Volume will come from trading bonds and unlisted securities at first. The important thing is to get trading off the streets and into the bourse."

The former Yugoslav republic agreed in 1994 to speed up privatisation and bank reform, restructure large loss-making companies and then open a stock exchange under the terms of an $85m World Bank loan. The UK's "know-how" fund has provided technical assistance for setting up the bourse and training brokers.

As the smallest and poorest of the ex-Yugoslav republics, Macedonia was left out of financial reforms which opened up trading on the Ljubljana, Zagreb and Belgrade bourses in shares of "socially owned" companies, where equity was shared among managers, workers and the state.

Nonetheless, a flourishing informal market has developed, with shares in privatised and "socially owned" companies changing hands daily at factory gates and through newspaper advertisements.

Though Macedonia's economy came close to collapse as a result of UN sanctions against Serbia, its main trading partner, and a blockade by Greece, its southern neighbour, about $750m in cash is said to be available for investment.

One banker said: "The official economy has shrunk by 50 per cent but sanctions-busting produced large cash profits for a lot of people. And Macedonians working abroad bring hard currency home every few months."

Moreover, Macedonians will be allowed to use hard currency deposits, frozen when the republic left the Yugoslav federation, for buying stocks and bonds, Mr Zografski says. While a substantial part of these deposits has been used to buy state property and participate in privatisations, "several hundred million dollars is still waiting to be spent".

The bourse launch comes as the government's privatisation programme reaches the half-way mark. Managers and employees have already taken control of half of the 1,200 state-controlled companies slated for disposal by mid-1996.

Unlike other ex-communist countries, Macedonia decided against issuing vouchers for mass privatisation, because so many employees were already shareowners in state enterprises. But the management and employee buy-outs have yielded little revenue, as shares were offered at a 30 per cent discount, frozen currency deposits were accepted instead of cash, and buyers were allowed to spread payment over five years. The agency reported income amounting to DM61m ($41m) for 1995 but only DM19m was paid in cash.

Ms Verica Hadzivasileva-Markovska, head of the privatisation agency, says: "It was more important to dispose of companies quickly, to people who had a chance of making them work effectively, than to raise cash for the government."

Because of Macedonia's political and economic isolation, foreign buyers have shown little interest: only six companies have been sold to buyers from abroad. But the economy is poised to start growing again this year, as trade with Greece and Serbia has resumed. Privatised companies have cut costs by shedding jobs but need to raise capital to buy equipment and machinery after a five-year investment gap.

Yet managers appear reluctant to reduce their equity stakes by floating privatised companies. Instead, they are considering issuing corporate bonds with a maturity of two or three years, which would be traded on the stock exchange.

Mrs Snezana Ivanovksa, development manager at Skopje Brewery – one of Macedonia's most profitable companies, privatised through a management buy-out last year – says: "We're not in any hurry for a listing. But borrowing rates are still crippling and it's hard to raise funds for more than six months, so a bond issue could make sense."

Preparations are under way to list a zero-coupon bond issued at a discount to replace bad debt held by Stopanska Bank, the largest state-owned bank, which has been restructured and split into six separate units under a bank rehabilitation scheme worked out with the World Bank.

Mrs Hadzivasileva-Markovska says: "We'll try to encourage companies to come to the bourse by listing the state's residual equity stake in a few profitable concerns that have already been privatised."

Skopje brokers in training Katerina Mygmakidou

Spreading the word on Skopje

Macedonia's fruit and vegetable farmers, their financial skills honed in the bazaar, have been crowding into promotional seminars organised by the International Securities Consultancy, a UK firm helping to set up and operate the Skopje stock exchange, Kerin Hope writes.

ISC has advised on setting up clearing and settlement systems and a central share registry, and has trained brokers and assessed controls at brokerage houses.

Roadshows, television spots and leaflets explain the bourse to domestic investors.

The exchange's 19 founder-members include a dozen banks, but brokerage companies are also being set up by such newcomers to financial services as Teteks, a successful textile exporter, and the state telecoms organisation's pension fund.

THE FINANCIAL TIMES
Published by The Financial Times (Europe) GmbH, Nibelungenplatz 3, 60318 Frankfurt am Main, Germany. Telephone ++49 69 156 850, Fax ++49 69 596 4481. Represented in Frankfurt by J. Walter Brand, Wilhelm J. Brüssel, Colin A. Kennard as Geschäftsführer and in London by David C.M. Bell, Chairman, and Alan C. Miller, Deputy Chairman. Shareholders of the Financial Times (Europe) GmbH are: The Financial Times (Europe) Ltd, London and F.T. (Germany Advertising) Ltd, London. Shareholder of the above mentioned two companies is: The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL.
GERMANY:
Responsible for Advertising: Colin A. Kennard. Printer: Hürriyet International Verlagsgesellschaft mbH, Admiral-Rosendahl-Strasse 3a, 63263 Neu Isenburg. ISSN 0174 7363. Responsible Editor: Richard Lambert, c/o The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL.
FRANCE:
Publishing Director: P. Maraviglia, 42 Rue La Boétie, 75008 PARIS. Telephone (01) 5376 8254, Fax (01) 5376 8253. Printer: S.A. Nord Eclair, 15/21 Rue de Caire, F-59100 Roubaix Cedex 1. Editor: Richard Lambert. ISSN 1148-2753. Commission Paritaire No 67808D.
SWEDEN:
Responsible Publisher: Hugh Carnegy 468 618 6088. Printer: AB Kvällstidningen Expressen, PO Box 6007, S-550 06 Jönköping.

Editor: Richard Lambert, c/o The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL.
R

Rigorous line urged on Emu 'ins' and 'outs'

By Peter Norman in Bonn

European Union countries which do not take part in the planned economic and monetary union will carry a significant responsibility for the stability of their currencies against the European single currency, if German ideas are adopted by the rest of the EU.

Spelling out the Bonn finance ministry's ideas for regulating relations between Emu "ins" and "outs", Mr Jürgen Stark, finance ministry state secretary, said future arrangements could be based on a new version of the exchange rate mechanism of the European monetary system, although certain improvements would be needed in an "ERM Mark Two".

Mr Stark said the euro, the EU's future single currency, should be "at the centre" of the remodelled ERM. The new system must be "more asymmetrical" than the existing EMS, meaning that policy adjustments to stabilise currencies "must primarily be undertaken by non-participants in the third and final stage" of Emu.

In a weekend speech to financiers in Vienna, Mr Stark said there would have to be intervention arrangements between the euro and the non-Emu currencies "in the interest of credibility". But he made clear that these should not undermine the monetary policy of the future European central bank, which would be responsible for the stability of the euro. There must also be precautions to ensure that necessary exchange rate adjustments among non-Emu members were not delayed for political reasons.

His remarks, which outlined a rigorous regime for non-Emu members, were the first public move by the Bonn finance ministry to set out Germany's position ahead of a mid-April meeting of EU finance ministers and central bank governors in Verona, Italy, which is due to discuss the "ins" and "outs".

Although Mr Stark said "definitive decisions" on the issue did not need to be reached before 1998, the matter is already causing tension between putative Emu members such as France and countries such as Italy, which is unlikely to be among the first wave of Emu participants.

Mr Stark, who is the ministry's senior international monetary official, said close co-operation was needed between the "ins" and "outs" to protect the EU's single market from competitive distortions caused by currency fluctuations and to steer Emu non-members towards membership of the single currency bloc.

In his speech, Mr Stark spoke out strongly against any delay to the start of the third stage of Emu beyond the planned date of January 1 1999, although he said it was "clear" that Emu could have a positive effect only if at least two large EU states and several smaller countries took part.

He said Germany, which failed in 1995 to keep its public deficit below the Maastricht treaty ceiling of 3 per cent, had the "firm intention" of bringing its deficit below 3 per cent in the coming two years.

Foreign investment in east Europe doubles

By Kevin Done, East Europe Correspondent

Foreign direct investment in central and eastern Europe almost doubled last year to nearly $14bn (£9.1bn), as the region began to compete more strongly with other emerging markets in Asia and Latin America.

The sharp increase resulted most importantly from the sell-off of big stakes in energy and telecommunications utilities in Hungary and in telecommunications in the Czech Republic.

The pace of foreign direct investment in east Europe has previously lagged far behind regions such as east Asia.

A report by the Economist Intelligence Unit forecasts that the level achieved last year will be sustained for the rest of the decade, however, and will be "in line with some of the more optimistic expectations" voiced at the start of the transition process in central and east Europe.

While much of the surge last year was accounted for by one-off privatisation moves, the EIU report says investment will remain strong, due to robust economic growth rates across the region, an improving business environment and falling political risk.

It forecasts investment flows into the region of about $20bn a year in the period from 1996 to 2000. For some countries this will be triple the level achieved from 1990 to 1995.

FOREIGN DIRECT INVESTMENT IN E EUROPE ($m)

	1994	1995	1990-95	1996-2000
Hungary	1,146	4,400	11,200	12,968
Poland	1,875	2,500	7,148	21,969
Czech Republic	878	2,500	5,666	15,466
Slovakia	187	200	775	2,150
Slovenia	87	150	501	3,052
Albania	53	75	205	583
Bulgaria	105	150	412	1,428
Romania	340	400	933	4,017
Other Balkans	120	100	300	2,210
Baltics	430	400	1,280	1,890
Russia	1,000	2,000	4,400	26,960
Ukraine	91	113	574	1,400
Other CIS	640	800	2,300	5,085
Eastern Europe	4,791	10,475	27,140	63,847
E Europe & former USSR	6,952	13,768	35,684	99,186

Source : Economist Intelligence Unit

The forecasts imply a slight reduction in investment in 1996/97, compared with last year, but a strong increase in the 1998-2000 period.

Investment so far has been concentrated in three central European countries – Hungary, Poland and the Czech Republic – but the EIU report suggests Poland and Russia will be the main destinations for the rest of the decade, with Hungary's dominant share declining.

The EIU's figures, derived from balance of payments data, show that foreign direct investment in Hungary jumped to $4.4bn last year from $1.15bn a year earlier, while investment in the Czech Republic rose to $2.5bn from $878m in 1994.

Germany is the dominant trader, investor, aid donor and creditor for the transition economies, the report says. More than 10 per cent of total German foreign investment is now directed at the most advanced transition economies.

Economic growth in central Europe (Poland, Czech Republic, Slovakia, Hungary, Slovenia and Romania) is forecast to average 4.6 per cent a year from 1996 to 2000, according to the EIU report, compared with 5.7 per cent (the weighted average) last year and 4.1 per cent in 1994.

The rate of growth in the five years will be almost twice the average for the European Union or the OECD.

Economies in Transition, First Quarter 1996. Available from The Economist Intelligence Unit, 15 Regent Street, London, SW1Y 4LR. Price: published quarterly, annual subscription £370/$715.

Romania clampdown betrays anxiety for leu

Virginia Marsh on reasons for imposing curbs on the country's fledgling forex market

From today most banks operating in Romania will have their foreign exchange operations restricted to buying or selling for customers within strict limits. Only three powerful state banks and a private sector bank will be allowed to trade on their own account.

On Friday, the central bank restricted what had been a 22-strong interbank market – including foreign banks such as Société Générale of France and ABN Amro of the Netherlands – to just four marketmakers, all of them local.

The clampdown on the fledgling foreign exchange market is a thinly disguised attempt to bolster a weak currency and to compensate for shortages of official reserves which have dogged transition to a market economy.

It is also part of a belated effort to tighten banking supervision and clean up the financial sector. It comes days after the central bank sacked the top management of Banca Dacia Felix, once regarded as a leading Romanian business, and placed it under special supervision after finding "grave violations" of banking regulations especially in credit and forex operations.

Among other things, some banks are believed to have exceeded new exposure and spread limits and to have been trading at prices other than those displayed on their screens. More seriously, a few of those involved in local forex operations – as well as banks there are dozens of licensed exchange bureaux – are suspected of money-laundering or of using the forex market to disguise some funds' origin.

"It is clear that there are some dubious financial organisations in this country, involved in dubious activities," says a western banker in Bucharest. "If that's the reason behind this clampdown, I'm all for it. It's overdue."

But the implication that private sector or foreign organisations are mainly responsible for the breaches in regulations, the weakness of the leu and a fractured forex market in which different players offer rates varying at times by as much as 20 per cent, has infuriated other bankers. They say there are economic reasons for the depreciation of the leu, such as last year's high current account deficit, and that until recently some state banks also traded at prices other than those they quoted.

The central bank says it appointed banks with the biggest forex operations as marketmakers. But analysts say state banks are subject to political pressure to prop up the leu, which lost two-thirds of its value last year, more than double the official rate of inflation.

They add that protecting the currency remains a principal objective in a country where many officials give higher priority to shielding loss-making state companies from higher prices for imported energy and other raw materials than to stimulating exports and foreign investment through a realistic exchange rate policy.

Managing the currency has proved one of the most difficult tasks of the transition. Since 1990 the country has often suffered from chronic shortages of foreign exchange with official reserves sometimes dipping below $50m (£32.6m), enough just to cover a few days' imports and imposing severe limits on industry.

This year, for the first time in more than a decade, Romania is hoping to raise significant amounts on international capital markets.

Until now, Romania has been forced to rely for external funding on the International Monetary Fund, World Bank and other official lenders which have often imposed stringent conditions – including a properly functioning forex market and a narrowing of the gap between the official and market rates of the leu to 5 per cent or less.

EUROPEAN NEWS DIGEST

Bonn plaudits for steel accord

Employers and the powerful I G Metall trade union have reached agreement to safeguard 100,000 jobs in the German steel industry, primarily through new rules that will allow steel workers to offset overtime working through extra free time rather than by receiving overtime pay.

The settlement, reached at the weekend, will apply in the states of North-Rhine/Westphalia, Lower Saxony and Bremen. It was hailed by politicians such as Mr Norbert Blüm, the Bonn labour minister, as a successful example of both sides of industry tackling Germany's unemployment crisis through an "alliance for jobs".

But as with last week's wage agreement for 225,000 workers in the German clothing industry, the steel industry pact is designed to preserve rather than create jobs. The original "alliance for jobs", as devised last year by Mr Klaus Zwickel, I G Metall leader, was that employers should create employment in return for wage restraint.

The steel agreement marks the introduction of "working time accounts". Workers will be able to "save" overtime in an account and take it later as holiday, in agreement with their employer. The accounts will also have an overdraft facility, allowing employees to take free time which must be paid back to the company when it chooses. *Peter Norman, Bonn*

Portugal's retailers fear for jobs

Portugal's big retailers say thousands of jobs are threatened by a government decision to restrict Sunday opening hours that has also led to the resignation of Mr Daniel Bessa as economy minister. Mr Bessa, an independent with responsibilities for industry, energy, tourism and commerce, quit after the Socialist government limited Sunday opening for hypermarkets to between 8am and 1pm to protect small shopkeepers.

Mr Augusto Ventura Mateus, formerly secretary of state for industry, was appointed to replace Mr Bessa. The former minister had favoured allowing big stores to remain open in the afternoon on Sundays. Until now they had been able to open from 10am to 1pm and from 3pm to 6pm.

The dispute over Sunday shopping is the focus of a battle between large retail chains and local grocers, whose share of total food sales fell from 64 per cent in 1989 to 34 per cent in 1994. Portugal has more small grocers per head than any other European country – 3.8 per 1,000 inhabitants, against an EU average of 1.4. But their future has become increasingly uncertain as consumers turn to hypermarkets, which offer lower prices and a wider choice.

Commerce organisations say competition with big outlets is every day forcing five small shops to close. The chains, which employ about 25,000 workers, say the new restrictions may make it unprofitable to open at all on Sunday and could cost 3,750-5,000 jobs. *Peter Wise, Lisbon.*

Bossi seeks referendum on north

Mr Umberto Bossi, leader of Italy's federalist Northern League, yesterday proposed that the country's northern regions hold a referendum on "self-determination".

Mr Bossi made the proposal at a party rally in the northern town of Pontida, where he proclaimed the "birth of the nation of the north" before a crowd of about 15,000.

The League, which prompted the collapse of former prime minister Silvio Berlusconi's government in December 1994, has not aligned itself with either the centre-right or centre-left bloc for next month's parliamentary elections. *Reuter, Pontida*

Committee's vote to replace Legco provokes fierce attack from Patten

Beijing push to scrap HK legislature

By John Ridding in Hong Kong

China yesterday pushed ahead with plans to scrap Hong Kong's elected legislature, drawing a fierce attack from Mr Chris Patten, governor of Hong Kong.

The Beijing-appointed Preparatory Committee, which is overseeing Hong Kong's handover to Chinese sovereignty next year, adopted a resolution to replace the territory's Legislative Council (Legco) with a provisional legislature.

The one member of the 150-strong committee who voted against the motion is to be barred from sitting on the provisional Legco.

"This is a black day for democracy in Hong Kong," said Mr Patten.

In a reference to Taiwan's first direct presidential elections on Saturday, he added: "At a time when democracy is moving forward all over the Asian region, a Chinese government-appointed body of Chinese government officials and hand-picked Hong Kong advisers has voted to tear down a legislature which was freely, fairly and openly elected."

The fate of Legco, which was elected last year under political reforms introduced by Mr Patten, has remained a focus of dispute between Britain and China.

In a visit to Hong Kong earlier this month, Mr John Major, Britain's prime minister, warned Beijing against dissolving the body. He indicated he would seek international backing for Britain's stance.

Mr Frederick Fung of the pro-Beijing Association for Democracy and People's Livelihood, said he saw no good reason for Legco's abolition and voted against the proposal. This was despite a plea for unanimity from Mr Qian Qichen, China's foreign minister, who dismissed the idea of western-style democracy for the territory.

"To mechanically ape the western democratic model does not accord with Hong Kong's actual conditions or accommodate the interests of all social strata. Thus it cannot benefit Hong Kong's stability and prosperity," said Mr Qian.

The territory's Democratic party, which won most seats in last year's Legco elections but which was excluded from the Preparatory Committee, condemned the move. "Whereas Taiwan takes a large step forward towards becoming a modern and free society, Hong Kong is about to take a giant step backwards," said Mr Martin Lee, the Democrats' leader.

The pro-Beijing Democratic Alliance for the Betterment of Hong Kong defended the move to replace Legco. A party official said Mr Patten's political reforms were invalid because no agreement had been reached with Beijing on the issue, despite 17 rounds of negotiations. He said that criticism of the move was premature before the method of selecting the new Legco had been established.

In a strongly worded statement, however, Mr Patten said that there was no justification for any provisional legislature. "There is deep scepticism in Hong Kong and the world at large about the Chinese government's motives, and a strong feeling that the real intention is to reduce the number of democrats in the legislature and to exclude the participation of individual members."

In addition to the Legco issue, the Preparatory Committee was set to endorse a proposal to ask China's parliament to reinterpret its nationality law, so that Hong Kong Chinese with foreign passports could choose to be treated as Chinese citizens or foreigners after 1997.

Hong Kong's pro-democracy camp says China's stance forces returning Hong Kong emigrants to renounce foreign citizenship if they want to keep their permanent right of abode in Hong Kong.

China softens tone . . . for the moment

By Tony Walker in Beijing

China might have calmed its attacks on Taiwan for the time being following President Lee Teng-hui's comfortable election victory, but Beijing is making clear it expects early conciliatory gestures.

Mr Shi Min, a senior adviser to the government in the Development Research Centre of the State Council, China's cabinet, said the election result was no surprise, but added: "The question is in which direction is Lee Teng-hui going to head now. After the mainland's warnings, Lee knows very well what he should do and what would bring a bad result."

China, in spite of an almost daily barrage of invective against Mr Lee since his visit to the US last June, appears willing to countenance a resumption of negotiations with a government headed by him.

It will certainly pay close attention to Taiwanese diplomacy to assess whether Taipei is continuing to seek to enlarge its "international living space". Tours abroad by Mr Lee, especially to the US or Japan, would produce further eruptions, and cast a pall over east Asian security.

China would also expect Taiwan to freeze, if not drop altogether, its attempts to enter the United Nations. Further efforts to secure recognition from small states in Africa and Latin America and the Caribbean in return for aid will also inflame Beijing.

China business: Key to right contacts, Page 14

The Chinese want Taiwan to re-engage more robustly in cross-strait negotiations broken off last year in protest at Mr Lee's visit to the US. Beijing is anxious to discuss what it describes as the "three directs" – direct air, sea and postal links – but Taipei has been reluctant.

In any case, Beijing can be expected to react with much greater sensitivity to real, or imagined, Taiwanese independence manoeuvres. Mr Lee's ability to accommodate at least some of China's concerns will decide whether working relations across the Taiwan Strait are restored.

A western official in Beijing said that if Taiwan's leaders were not contrite, if they did not make conciliatory gestures, then China was perfectly prepared to continue military and other pressures indefinitely.

"If things don't drift back more or less to where they were, I would anticipate constant pressure on Taiwan and attempts to de-stabilise it. Every now and then, the Chinese will declare an exclusion zone and send in a few more missiles. They will undertake more amphibious exercises to remind the people of Taiwan 'we are very, very close'."

Mr Shi Min, adviser to the State Council, said the military exercises in the Taiwan Strait had "passed a very clear message that we have the ability to attack just about anywhere in Taiwan," but he added: "The mainland still hopes that Lee Teng-hui will change . . . It's against everybody's interests to start a military showdown.

"After all, the economies of both sides of the Taiwan Strait have become more and more interdependent. Economically, we need each other more than ever. A showdown would just cost too much for both sides."

Comments by Mr Chiang Pin-kung, Taiwan's economics minister, that the island would redouble its efforts to expand commercial ties with the mainland will have been noted in Beijing.

"How to ease cross-strait tensions and rebuild the good base for interaction between the two sides should be the main issue after the elections," he said.

While these sentiments might be welcome in Beijing, the argument between the two countries is not over economic ties, but international living space. The weekend election has not changed that.

Editorial comment, Page 15

Lee expected to extend olive branch to Beijing

Reduced tensions are Taipei's main goal following the president's landslide win, writes Laura Tyson

Expectations are high that President Lee Teng-hui will take steps in the coming months to mend relations with Beijing after his landslide victory in Taiwan's first democratic presidential elections.

One Nationalist party official quipped that Mr Jiang Zemin, China's president, should be awarded a medal for being a "super campaign aide", and launching war games in the Taiwan Strait just weeks ahead of the polls, which boosted votes for Mr Lee. However Mr Chiang Pin-kung, the economics minister, said reducing tensions and improving economic ties should be the main goal after the elections.

Mr Lien Chan, premier and vice-president-elect, repeated Taipei's desire to seek a bilateral peace treaty with Beijing, previously rejected by China because it would imply recognition of the Taiwan authorities.

Despite his unexpectedly strong mandate, however, it will be exceedingly difficult for Mr Lee politically to extend the requisite size and shape of olive branch to mollify Beijing's affronted dignity.

Likewise, Beijing appears to be in no mood to make any sort of accommodation which might allow room for a meeting of minds across the muddy waters of the Taiwan Strait.

Since a trip to the US by Mr Lee last June which infuriated Beijing, China has reviled him repeatedly in official media and condemned his efforts to raise Taiwan's international status. Beijing also accuses Mr Lee of secretly trying to engineer formal Taiwanese independence, which he steadfastly denies.

For its part, newly democratised Taiwan feels hemmed in by China's unceasing and sometimes petty efforts to prevent the island from playing a role in the international arena.

Beijing views Taiwan as a wayward Chinese province not entitled to foreign relations or membership in multilateral organisations.

Both Taipei and Beijing officially call for eventual unification, but disagree on the terms.

The election result is a clear sign that most Taiwanese want to maintain the *status quo*: that is, *de facto* independence leaving open the possibility of future unification, and for the time being rejecting either outright independence or speedy unification.

It is also a vote of confidence for Mr Lee's dual-edged policy of keeping China at arm's length politically while developing Taiwan's global profile.

This would appear to put Mr Lee in a relatively strong negotiating position *vis-à-vis* Beijing in future discussions, likely to be restarted in coming months.

Mr Lee showed little sign that he would drop Taiwan's campaign for a UN seat – which is so detested by Beijing. After his victory, he vowed to "pursue national dignity and firmly establish our international place" as one of the goals of his four-year term.

Mr Lee's 54 per cent win is seen as a setback for the leading opposition, the pro-independence Democratic Progressive party (DPP), many of whose supporters defected to vote for Mr Lee. It is also a decisive victory over those who favour a more conciliatory approach to China.

In third place after the DPP with 21.13 per cent were independent Mr Lin Yang-kang and running mate Mr Hau Pei-tsun with 14.90 per cent. Mr Lin, a long-time rival of Mr Lee, and former general Mr Hau were backed by the New party, which split off from the Nationalists in 1993.

Mr Lin's performance was worse than anticipated, partly because many New party supporters voted for independent candidate Mr Chen Li-an and his running mate, Ms Wang Ching-feng. The pair received 9.98 per cent of the vote.

Lee holds a young supporter at a thank you celebration for Nationalist party supporters and members yesterday Reuter

Pretoria faces pressure on Taipei

By Roger Matthews in Johannesburg and Tony Walker in Beijing

South Africa is likely to come under strong pressure this week from China to sever diplomatic links with Taiwan. The issue is expected to dominate discussions involving Mr Alfred Nzo, South Africa's foreign minister, who was due in Beijing yesterday.

Representatives of the South African Centre for Chinese studies, South Africa's unofficial "embassy" in Beijing, say, however, a change in policy is not imminent.

South Africa is keen to establish full diplomatic relations with China, but President Nelson Mandela has several times indicated that he is unwilling to break ties with Taiwan, as demanded by Beijing. South Africa has had diplomatic relations with Taiwan since 1976.

However, South Africa's trade with China appears to be pushing Pretoria towards normalisation. It has been increasing rapidly and, if added to that of Hong Kong, now exceeds trade with Taiwan. Two-way trade reached $1.3bn in 1995.

The African National Congress and the government of national unity which it dominates appear to be split over the issue.

Some members of the ANC executive committee argue that Mr Mandela should exercise his "international moral authority" to resist China's "bullying tactics".

Recognising China at a time when it has been flexing its military muscles over democratic presidential elections in Taiwan would damage South Africa's international standing, they say.

The National party, the junior partner in the government coalition, also opposes breaking with Taiwan, a relationship which the party fostered when it was in power.

A foreign ministry official in Pretoria said the South African delegation was anxious to hear China's assessment of South Africa's transition to democracy.

The Pretoria government wished to be on good terms with both China and Taiwan, he said.

Senior government officials said Mr Nzo's visit was more of an exploratory nature and no quick switch in policy should be expected.

Mr Raymond Suttner, chairman of the parliamentary foreign affairs committee, said the visit was part of a process "aimed at normalising our relations with China. It is unthinkable that South Africa can continue permanently without diplomatic relations with a country that has a quarter of the world's population, and is a permanent member of the Security Council," he said.

Asiasat satellite group turns to Russian launch rocket

By John Ridding

Asiasat, the Hong Kong-based satellite consortium partly owned by China's main investment vehicle, is to use a Russian rocket for next year's launch of its Asiasat 3 satellite rather than China's troubled Long March launcher.

The consortium said the decision had been taken prior to last month's explosion of a new-generation Long March rocket and reflected the availability of a launch slot. "The important thing is the timing", said an Asiasat official. "We want the launch to go ahead as quickly as possible in 1997 and Proton was available."

The planned use of Russia's Proton launcher will mark the first time that Asiasat has not used a Chinese Long March rocket.

The launch is to put in orbit a satellite for digital communications including TV distribution and business networks. Asiasat said that the pricing of the Russian and Chinese launch options were comparable. But insurance premiums for Chinese launches are thought to have been pushed sharply higher by recent setbacks in China's launch programme.

In addition to last month's failure of a Long March rocket, which was carrying an Intelsat satellite, China's Great Wall launch contractor suffered another failure last year with the explosion of the rocket carrying Hong Kong's Apstar 2 satellite.

Investigations into the latest accident have prompted delays in China's launch programme.

The launch of Apstar 1A has been put back until next month at the earliest, while satellites contracted to use the new generation Long March 3B system face longer delays. Several major launches are booked to use the 3B system this year and in 1997, including the two Intelsat satellites and a replacement for the Apstar 2.

Asiasat is jointly owned by Hutchison Whampoa, the Hong Kong conglomerate, Cable and Wireless of the UK, and Citic, Beijing's flagship investment vehicle. The Asiasat 3 satellite is being built by Hughes Space and Communications of the US. It is due to be launched from Baikonur cosmodrome in Kazakhstan as early as possible next year.

There have been conflicting reports about the casualties involved in the February accident, in which a Long March rocket crashed into a populated area in China's south western Sichuan province. Earlier this month, officials of China's state-run Great Wall contractor said there had been six fatalities and 100 homes had been destroyed. But independent reports suggest the toll may have been higher.

INTERNATIONAL NEWS DIGEST

Peres names Mossad chief

Israel yesterday officially named the head of the Mossad intelligence organisation, the first time the government has publicly disclosed the name of its top spy. Mr Shimon Peres, Israeli prime minister, appointed Major-General Danny Yatom, his military secretary, to the post at a cabinet meeting. A leading Israeli newspaper had already released Mr Yatom's name last week, breaking Israeli censorship rules.

In the past, the Mossad head was known only by his first initial in an increasingly futile attempt to keep his identity a state secret. Israeli journalists and other critics had called for a lifting of the ban in recent years, arguing that it was easy for non-Israelis to learn of his identity, while Israeli citizens were kept in the dark.

Mr Peres earlier this year announced the name of Mr Ami Ayalon, the new head of the Shin Bet, Israeli internal security service. Until then the Shin Bet head had also been known only by his initial. *Mark Dennis, Jerusalem*

China bursts at seams with jeans

China has a huge overcapacity for denim jeans production. Its 200 companies can produce a total of 1.08bn metres of denim, more than the combined annual output of the US and Europe in the late 1980s, according to the China Daily Business Weekly.

With quotas limiting jeans exports to 30 per cent of total output, Chinese manufacturers have 700m metres of denim to sell in the domestic market, where demand is about 300m metres. Excess supply and rising cotton prices have forced several manufacturers to stop production. *Reuter, Beijing*

Benin comeback for Marxist

Mr Mathieu Kerekou, Benin's former Marxist military ruler, yesterday staged a comeback when the country's top court proclaimed him winner of its second multi-party presidential election. The announcement of Mr Kerekou's return from the political wilderness to defeat President Nicephore Soglo in last Monday's run-off unleashed a wave of rejoicing by his supporters in the West African nation's main city, Cotonou.

But the constitutional court, guardian of electoral independence in the West African nation, said his 52.49 per cent victory was subject to a final ruling on any further challenge from Mr Soglo – who has five days to complain. Mr Kerekou seized power in 1972 but in 1990, with Benin bankrupt and on the brink of social collapse, he handed power to a national conference which introduced multi-party democracy. *Reuter, Cotonou*

Poll win boosts Japan coalition

By William Dawkins in Tokyo

Japan's new coalition government yesterday won a landslide victory in its first parliamentary electoral test since taking office in January, opening the way for an end to the deadlock over the national budget which has lasted more than three weeks.

Mrs Tsuyako Ono won slightly more votes than her two main candidates combined in a by-election in Gifu, a conservative industrial constituency in central Japan. It was interpreted by the government as a sign of acceptance – albeit grudging – of an unpopular plan to allocate Y685bn ($6.5bn) of taxpayers' money from this year's budget for the liquidation of bankrupt *jusen* housing loan companies.

The scheme was the central campaign issue both for the ruling Liberal Democratic party and the opposition New Frontier party.

Mr Ryutaro Hashimoto, prime minister, last night said he was "really relieved" at the result. The LDP would now seek quick parliamentary adoption of the budget, which covers the year starting next month, said Mr Koichi Kato, the LDP's secretary general.

This will come as a relief to business lobbies, which had warned that further delay over the Y75,100bn budget, which contains a sharp increase in public works spending, could harm recovery from the longest recession since the 1980s.

The New Frontier party has blocked the budget since the end of last month and staged a sit-in outside the parliament's budget committee since March 4, in an attempt to expose the government to embarrassment through the housing loans companies' underworld connections. Party officials may now advise Mr Hashimoto to seek to have the protesters removed.

Kim aide charged with corruption

By John Burton in Seoul

The arrest of a close aide to Mr Kim Young-sam, the South Korean president, on corruption charges has embarrassed the ruling party less than three weeks before a general election.

Mr Chang Hak-ru, who has served as a personal assistant to Mr Kim since 1977, was charged at the weekend with accepting Won140m ($179,000) in corporate payments since 1993 in return for alleged influence peddling. He is the first member of Mr Kim's inner circle to have been implicated in a corruption scandal.

Mr Chang's arrest came as a blow to Mr Kim, who has conducted an anti-corruption drive since he became president in 1993. Mr Kim expressed deep bitterness over his aide's alleged actions and vowed to punish any member of his administration who has been involved in corrupt activities.

Mr Chang resigned last week as a presidential aide after the National Congress for New Politics, the main opposition party, alleged he had hidden Won3.7bn in assets under the name of his mistress and her brothers. Mr Kim immediately ordered an investigation into how Mr Chang amassed the alleged secret funds.

His quick response is intended to safeguard the ruling New Korea party as it struggles to keep its parliamentary majority in the general election on April 11. But most political analysts believe the affair has further damaged the government's election chances. It is also putting renewed pressure on Mr Kim to reveal the financial sources for his 1992 presidential campaign.

The opposition has alleged that Mr Kim received at least Won300bn for the 1992 campaign from the secret slush fund of his predecessor, Mr Roh Tae-woo, who is being tried on corruption charges. Mr Kim denies the allegation.

NEWS: THE AMERICAS

InterAmerican Development Bank report highlights gains made in region

Latin America shows 'resilience'

By Stephen Fidler in Buenos Aires

Latin America's investment and savings rates are still too low in most countries to generate sustained economic growth and expand employment opportunities, the InterAmerican Development Bank said in its annual report released today.

The bank also said that "outdated and potentially counterproductive regulation of labour markets remain to be addressed in many countries". Fiscal policy needed to be "consolidated" and institutional reforms were required to ensure the benefits of economic growth were shared by all sectors of society.

The bank said the crisis after Mexico's devaluation in December 1994 "highlighted the region's vulnerability to volatile international capital flows, and underscored the very narrow margin for policy error".

But while demonstrating the need for further reforms, the crisis also emphasised the region was now more resilient to shocks than in 1982 "when a similar disturbance plunged the economy into a decade-long recession". It also said there was "good reason to believe that the painful adjustments now under way in Argentina and Mexico will bear fruit in the relatively near term".

Despite the shock, the report emphasised gains made last year in the region. Inflation declined in 15 countries, stayed stable in one and rose in 10. The median rate of inflation – that experienced by a "typical" country – fell from 12.8 per cent in 1994 to 10.5 per cent in 1995, lower than in any year since 1978.

Exports were the most dynamic source of demand in the region, rising 7.5 per cent in real terms. Exports also rose by 18 per cent in dollar terms, with strong rises in Haiti (by 48 per cent), in Chile (38 per cent), and in Argentina (35 per cent). Exports grew more rapidly than the economy in 19 out of 24 countries. In volume terms, exports from the region – excluding Brazil – grew by 13 per cent, while Brazilian export volumes fell 8 per cent.

Investment fell in Argentina, Mexico, Uruguay and Venezuela, but expanded by 17 per cent in the rest of the region. Investment growth in Colombia was 22 per cent, Peru and Brazil 20 per cent, and in Haiti 525 per cent.

The IADB itself reached its highest level of lending last year – \$7.3bn (£4.77bn) in new commitments, compared with \$5.3bn in 1994 – in part because of increased lending to Mexico. See Feature: Shifting battleground; and Survey: Latin American Finance

Call for independent fiscal councils to control spending

By Stephen Fidler

Latin American governments should set up the equivalent of independent central banks to control fiscal policy, the chief economist of the InterAmerican Development Bank argued yesterday.

Mr Ricardo Hausmann proposed the creation of politically independent national fiscal councils which would set the maximum increase allowed in general government debt and a binding ceiling for the budget deficit.

This would limit politicians' ability to indulge in government spending splurges during economic booms. Because members of the council would be established for long, fixed terms, the council would help reduce uncertainties associated with government handovers.

Mr Hausmann argued there had been a long-standing bias towards deficit spending in Latin America, reflected in a large stock of debt relative to capacity to service it. The size of this debt increased worries about creditworthiness so that when there was an adverse shock to the economy, access to credit was lost. This forced a fiscal contraction in a weakening economy – which accentuated the depth of recession.

He said the source of the problem was the way fiscal policy decisions were made by politicians, tending to spend surpluses in the good years and leaving no cushion for the bad. The idea of a national fiscal council, a kind of internal International Monetary Fund, would, over time, correct this problem.

Unsurprisingly perhaps, the proposal was received half-heartedly by finance officials in Buenos Aires. Mr Larry Summers, undersecretary at the US Treasury, said it was a mistake to think an "institutional silver bullet" could resolve fiscal problems in the absence of social consensus. Intrinsically, fiscal policy decisions were also more political than central bank decisions.

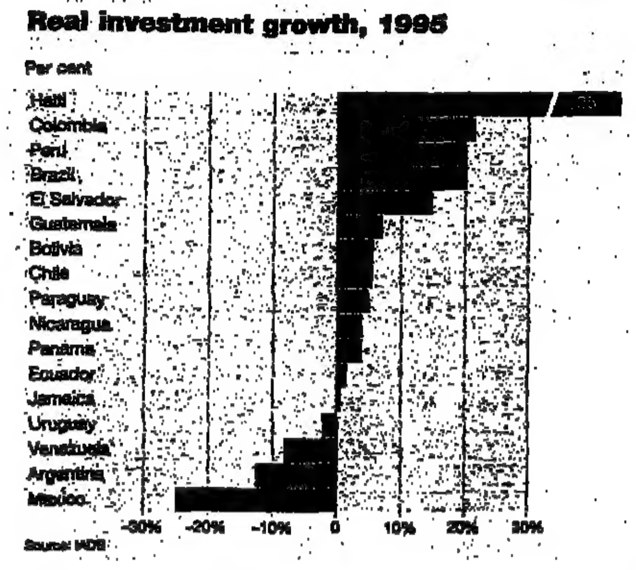
The proposal was contained in a paper released yesterday on which Mr Hausmann, Mr Barry Eichengreen of the University of California at Berkeley, and Mr Jü von Hagen of the University of Mannheim co-operated. It stems from other work which links the huge volatility experienced by Latin American economies to volatile fiscal policy, which in turn is linked to the loss of creditworthiness economies suffer when affected by adverse shocks.

Another paper presented yesterday by Mr Hausmann's office also showed that Latin America and the richer countries of the OECD have run roughly similar overall budget deficits on average from 1970 to 1994, at about 3.8 per cent of GDP.

However, in Latin America this figure implied greater weight on the financial system required to finance them and a greater proportion of fiscal revenues.

The typical Latin American recession lasts a little longer than two years, and involves a cumulative decline in real GDP of 8 per cent. With trend growth of about 3.5 per cent a year, a typical recession thus represents a reduction in output, relative to trend, of about 15 per cent. The corresponding figure for the OECD is roughly 7 per cent. To eliminate a fiscal deficit in recession requires on average a 25 per cent cut in non-interest spending in Latin America; compared with 6 per cent in OECD countries.

Real investment growth, 1995



Source: IADB

Hopes for Mexican loan sales

Some US-based investors have already expressed interest in buying packages of bank loans from a new agency being established by the Mexican government to sell off loans acquired in bank bail-outs over the last year, said Mr Guillermo Ortiz, the Mexican finance minister, writes Stephen Fidler.

He said some funds had shown interest in buying loans from the Mexican version of the Resolution Trust Corporation, used by the US to resolve its thrift crisis in the 1980s.

Legal work was now under way in creating the agency. The first blocks of loans should be sold before the end of the year, he said. The new agency's head will be Mr Oscar Medina Mora, a senior official with Banamex.

The aim was in part to establish a discount price for questionable loans, which would contribute to an "effective way to emphasise market oriented solutions to the problems of overindebtedness".

A call for credit rating agencies to recognise the extent of economic reform in Latin America came yesterday from Mr David Mulford, president of Credit Suisse First Boston and one of the US negotiating team during the 1980s debt crisis. He said rating agencies were behind the times.

Chile makes progress toward free trade pacts

By David Pilling and Stephen Fidler in Buenos Aires

Chile has made significant advances in free trade agreements with Canada and the four countries of Mercosur, the South American customs union.

Mr Eduardo Aninat, Chilean finance minister, yesterday said an agreement between Argentina, Brazil, Paraguay and Uruguay, the founding members of Mercosur, to join as an associate member was on track to be signed by June 25. An accord was "80 to 85 per cent" completed, he said.

The deal, struck at the weekend in the Colombian city of Cartagena at foreign minister level, could end months of often fractious negotiations. Chilean officials at the Inter-American Development Bank annual meeting in Buenos Aires said the breakthrough followed a "political decision" that technical difficulties should not derail the thrust towards integration.

Mr José Miguel Insulza, Chile's foreign minister, said: "We have reached a good agreement. Although a couple of points still have to be settled, we hope that by the end of June our presidents will sign an accord in Buenos Aires."

Chile's 14m people would then be incorporated into the 200m-strong Mercosur free-trade zone from July 1. Chile would not, however, become a full member of Mercosur, whose variable external tariffs are deemed incompatible with Chile's uniform 11 per cent regime.

Mr Insulza said the negotiations, which had proved more difficult than expected, had yet to find common ground on a number of issues.

He said the advances came after Chile "made a decisive gesture" by declaring itself willing to open its agricultural sector to the four Mercosur members 18 years after the agreement went into effect.

The main stumbling block to a deal has been Chile's insistence that its agricultural sector be indefinitely exempted from full competition with its more efficient counterparts in Argentina and Brazil.

However, Chile has overridden pressure from its agricultural lobby by implementing the transition period for free trade in wheat, flour, oilseeds and meat.

On trade discussions with Canada, Mr Aninat said talks with Mr Art Eggleton, Canada's trade minister, in Santiago on Friday had also made progress. Both countries were determined to go ahead with a bilateral free trade agreement even though negotiations over Chile's accession to the North American free trade agreement could not go ahead because the US administration did not have fast-track authorisation from Congress.

However, the bilateral talks would exclude some areas contained within Nafta – for example, financial services. Negotiators next meet on March 28.

● The Chilean economy had "its best year overall since 1930" in 1995, Mr Aninat said. Figures just released showed growth last year at 8.5 per cent from 4.2 per cent in 1994, budget and current account surpluses, and a 27.4 per cent investment rate. Unemployment was at 4.5 per cent and growth this year was forecast to be 6.5 per cent.

Venezuela optimistic on overcoming IMF hurdles

By Raymond Colitt in Caracas

The Venezuelan government expects soon to reach agreement in principle on an economic adjustment programme with the International Monetary Fund, according to Mr Teodoro Petkoff, planning minister.

He said at the weekend that obstacles to an agreement were likely to be resolved before an IMF negotiating team, currently in Caracas, returned to Washington in less than a week.

Venezuela has been negotiating the adjustment programme with the IMF since September. It is seeking a \$3bn (£1.9bn) credit line to help restructure the economy and service its public debt.

Recent negotiations have focused on measures to reduce a budget deficit of 6-7 per cent, as well as the timing for removal of foreign exchange controls and higher interest rates.

Mr Petkoff said government efforts to close the budget gap would include tax increases, coupled with efforts to improve tax collection. Moves to boost revenues would also include increasing contributions from the state oil company, PDVSA, from 7 to 11 per cent of gross domestic product.

The government had previously announced a substantial petrol price rise after months of hesitation due to fears of social unrest. PDVSA officials last week suggested the price of petrol would be lifted to at least its production cost of \$0.08-\$0.10 per litre, from the present rate of \$0.03.

In tandem with the rise in petrol prices, the government plans a sweeping programme to convert public transport to natural gas.

The stock market rose to a record high as talks resumed with the IMF last week, while the bolivar gained slightly against the dollar.

However, investors in Caracas remained cautious. Mr Frank Amador, director of CNI financial consultants, said: "The president now appears to realise that change is necessary. But overcoming serious macroeconomic distortions will be difficult and questions remain over the implementation of a possible agreement."

NEWS: THE BEEF CRISIS

Slaughter could deepen UK trade deficit

By Gillian Tett, Economics Correspondent

Never mind the beef - watch the milk. That might be the motto of City of London economists this week.

The immediate focus for City concern is likely to be the admission by Mr Douglas Hogg, the UK agriculture minister, that the government is considering slaughtering cattle over the age of 30 months.

On the face of it, such a step seems less dramatic than the total slaughter that surfaced as a possibility last week. Out of the nation's 11m cattle herd, for example, only 4.5m are currently over 30 months.

Consequently, if a slaughter was restricted to these eldest cattle, then any cost would probably be less than the £15bn to £20bn ($30.6bn) which some government officials have estimated for a total slaughter.

However, this tells only part of the economic story. The crucial point about the cattle over 30 months is that they are almost entirely related to the dairy industry. Losing domestic supplies of dairy products would probably have even more serious macroeconomic implications than losing beef, even though most of the debate so far has centred around meat.

The reason for this is that the dairy sector is one of the few areas where the UK is almost entirely self-sufficient. Each year, for example, some £6bn-worth of dairy products is consumed compared with some £3.5bn-worth of beef items. Most of the dairy products are home-produced with virtually no fresh milk imported.

Consequently, if the UK suddenly had to import dairy products to meet its demand, this could push up the trade deficit by some £5bn to £6bn irrespective of what happened to the UK's £520m of beef exports.

Indeed, Mr Ian Shepherdson, economist at HSBC markets, calculates that a £6bn increase in the trade deficit could potentially reduce overall Gross Domestic Product by almost 1 per cent during the year even leaving aside any possible job losses.

These scenarios are highly speculative. But this analysis is already leaving some economists nervous, particularly as they consider the potential impact on government finances. UK government bonds began to lose value on Friday amid fears that any slaughter could push the government's public sector borrowing requirement sharply higher.

As Mr Stephen Lewis, director of research at London Bond Broking, says: "The London bond market underperformed European markets by some 50 basis points on Friday."

Mr Lewis believes that the markets will calm down if the government rules out any mass slaughter.

Meanwhile economists are already looking to the inflation data for the first tangible signs of the economic fall out: some observers think the plunge in beef prices could reduce April's retail prices index by as much as 0.2 percentage points.

But even this projection depends on the outlook for milk prices.

Illicit trade disclosed by Irish minister

By John Murray Brown in Dublin

Mr Ivan Yates, minister for agriculture in the Republic of Ireland, yesterday disclosed details of an illicit trade in bogus health certificates for Irish livestock. It allowed traders to use vacant container space in Irish trucks to ship British beef to mainland Europe.

Mr Yates said the activity, which threatened to undermine efforts to control the spread of BSE, was "appalling and unacceptable". There had been several police raids over several months, and criminal charges were likely soon. The minister insisted it was not a widespread practice, and expressed confidence that the ring had been cracked.

He also said police and Customs inspection of freight traffic at the border with Northern Ireland had been stepped up in the wake of reports that British beef was being shipped from Scotland to Northern Ireland, from where it is shipped to the Republic of Ireland.

Mr Yates said he would supporting moves at today's meeting of the veterinary and scientific committee of the European Union to "ring-fence the problem in Britain." He said that "unilateral action is not the way to proceed; we must have Europe-wide action."

In the medium term, he added, the crisis in the British beef industry provided an opportunity for Irish beef exporters. Irish embassies had launched a campaign to highlight Ireland's island status, the country's exemplary health standards and the "green" image of Irish beef.

He said he was restarting discussions with one UK supermarket chain to introduce branding of Irish beef, to help boost sales. He confirmed that talks had been abandoned earlier because of sensitivities about Irish products when the Irish Republican Army resumed its bombing campaign in England.

He said yesterday, however: "We are in an entirely new situation, where there's been a collapse in consumer confidence in British beef. Consumption may drop between 30 per cent and 50 per cent. There is a new strategy in play, reintroducing the labelling of Irish beef, and getting across the message that we have the highest animal health standards in Europe. We're an island. We're marketing the green image of Ireland."

Mr Yates pointed out that the Republic of Ireland had suffered 124 cases of BSE over 6½ years compared with 160,000 in the UK.

'You can't justify making cows into cannibals'

By Alison Maitland in Bath

Graham Padfield has had six cases of BSE in seven years on his farm in south-west England

It was not by choice that Mr Graham Padfield, a dairy and beef farmer in south-west England, fed bits of sheep and cattle to his 150 milking cows in the 1980s. "Unknown to us, they were using recycled ruminants to make the protein in the cattle feed. We were oblivious of what was in it," he said in his farmhouse kitchen.

He said it became known only after BSE emerged that not only sheep but also cows had been used in feed for years. "It's not right, is it, if we're trying to sell something which is wholesome? You can't justify making cows into cannibals."

Feed containing infected animal remnants is widely regarded as the most likely cause of the BSE epidemic. During the 1980s the government allowed renderers to lower the temperature at which they processed meat and bonemeal to save on fuel costs, and this is thought to have allowed the infected material to survive and enter cattle diets.

Mr Padfield, 48, has had six cases of BSE in seven years on his farm near the city of Bath. About three years ago he started a 60-strong beef herd. "Now it looks as if we're crazy to keep beef," he said.

Attention in the latest scare has focused on beef farmers, who are set to see their income wiped out. But farmers such as Mr Padfield are doubly hit, since prices have also plummeted for cull cows - older dairy cows that are past their milking days and are fattened up for meat.

The traditional market for this beef is France, which was the first country to declare a ban on imports this week and is the UK's biggest European export market for beef. Prices at Mr Padfield's local market are down by about 20 per cent. That means "losing all the profit," he said.

He cannot believe that the entire national herd of 11m animals will be slaughtered, as the British government has suggested might be necessary. "It would cost billions in compensation. There would be no milk and no beef. Tens of thousands of people would be thrown out of work."

Mr Marshall Taylor, who has 150 cows in the Quantock hills farther to the south-west has no doubt who is to blame. "The government has been proved totally inept at every stage," he said.

"This crisis is going to make the Lloyd's insurance crisis seem like a non-event. It has the potential to push agriculture straight into a slump of 1930s proportions."

The main target of his ire was the government's suggestion that the national herd might have to be slaughtered.

Mr Taylor, who has suffered about 15 cases of BSE and stands to lose a minimum of £2,000 a year on the sale of his cull cows at current prices, said that the rule change on rendering temperatures was the first of many errors.

The initial decision in the 1980s to pay only 50 per cent compensation to farmers who had to slaughter infected cows "was not enough to prevent a farmer taking imprudent action and letting the animal slip into the food chain".

He said that meat and bonemeal in pig and poultry feed – banned only this week – has continued to be carried in the same delivery vehicles to farms as cattle feed, in spite of the risk of cross-contamination. The government banned the use of rendered-down animals in cattle feed in 1988. "We've continued to have cows born after that date go down with the disease. There must be leakage."

Britain needed a US-style Food and Drug Administration to handle food crises as an independent agency separate from the Ministry of Agriculture, he added.

Switzerland condemns ban by Germany

By Frances Williams in Geneva

The Swiss government and farmers' organisations have reacted with surprise and disappointment to Germany's decision on Friday to ban imports of Swiss as well as British beef and cattle. "Swiss beef is irreproachable," said Mr Heinz Müller, spokesman for the Swiss federal veterinary office.

Switzerland last year exported to Germany about 190,000kg of dried beef worth Sfr4.1m, and 2,256 head of live cattle. Mr Melchior Ehrler, director of the Swiss Farmers' Union, said the precautions taken by Switzerland in 1990 to prevent the spread of BSE were stricter than in the EU.

On Thursday, the Swiss government expressed confidence in the effectiveness of the measures and said it saw no reason to ban British beef. But on Friday it followed other European nations in prohibiting imports from Britain following widespread public concern.

After Britain, Switzerland has been the European country most affected by BSE, with 206 cases reported since 1990 in a bovine herd of about 1.74m. Last year there were 68 BSE cases after 64 in 1994.

However, Mr Thomas Zeltner, director of the Swiss federal public health office, said in a newspaper interview yesterday that the animals currently sick were all over five years old. There was "practically no risk" from eating beef today, he said, while conceding that eating beef brains 10 or 15 years ago could have involved a "small risk".

In 1990 Switzerland banned the use of meat, offal and bonemeal in animal feed, and required all cattle, sheep and goats more than six months old to be examined by an expert before slaughter. Offal from animals more than six months old must be destroyed.

German concerns apparently stem from the fact that, unlike other cases in Europe, BSE in Swiss cattle cannot be entirely accounted for by the import of animal feed or live animals from Britain.

The German move, which took effect at the weekend, was later echoed by the Netherlands, which advised distributors not to sell Swiss beef. Action against Swiss beef could be extended to the rest of the European Union following today's meeting of the EU veterinary committee.

The direct impact on Swiss beef producers will not be large, since Switzerland exports very little beef. But farmers fear a backlash from Swiss consumers that could cut home demand. home.

Countries all round the world have closed their borders to British beef and live cattle leading to the loss of most of the export trade, which is worth £520m ($78.6m) a year for farmers and trading companies, Deborah Hargreaves writes.

As emergency bans on all shipments were announced, exporters were left with beef in transit. "We've got several shipments en route to different parts of the world which have now banned British beef and we don't know what to do with it," said Mr Nick Askaroff, managing director of ABM group, one of the UK's leading exporters.

Beef exported outside the European Union is eligible for export refunds to compensate traders for the lower prices in other parts of the world. "If we bring that beef back into the EU, we have to pay the refund back, plus a 20 per cent penalty," said Mr Askaroff.

The last time British beef faced an international embargo was in 1989-1990 at the time of the outbreak of the BSE epidemic. Mr Askaroff was then eventually forced to bring beef back to the UK and pay the 20 per cent penalty with interest. "It nearly ruined the company," he said.

Roast beef is struck off menus

By William Lewis in London

One of the great British institutions – the Sunday roast – was removed from many menus yesterday because of fears about the spread of BSE.

Bass, which runs about 2,700 restaurants and pubs in the UK, yesterday stopped serving all British beef products. The company said its decision was unprecedented. "We have never suspended British Sunday roast before," it said. Customers in restaurants owned by Bass – such as Harvester and Toby – were able to eat non-British roast beef where supplies were available.

"We have gone through every menu item on Friday checking back with suppliers the sourcing of every menu item," Bass said. "Anything with British beef is suspended."

On Saturday the UK offshoot of McDonald's announced that it had banned British beef from its outlets in Great Britain and would use beef from other countries. McDonald's has suspended the sale of beef products until Thursday, when fresh supplies from the Netherlands should be available.

Overall, however, there appears to have been a mixed reaction by companies and consumers to the beef scare. Some companies have adopted a "wait-and-see" attitude before implementing beef bans.

Burger King, a rival of McDonald's, said yesterday that it was waiting for further information so it could "make an informed decision rather than a knee-jerk reaction". The company said that it "would be rash to make a decision before Monday".

Burger King's approach met customers' approval in a City of London branch yesterday. The lighthearted response of Mr Eric Viper, a tourist from Australia, to the BSE scare appeared typical. Eating a large beefburger at lunchtime yesterday, Mr Viper said: "Mad cows? Never heard of them. Mind you, we have some funny things back home so mad cows would not worry me."

Simpson's-in-the-Strand, one of the UK's top venues for Sunday roast, reported "business as usual". The restaurant served 130 customers on Sunday, "90 per cent of them British beef", and 600 on Saturday. "British beef, that's what they want and that's the world's best," Simpson's said.

Brussels will attempt to restore confidence

By Caroline Southey in Brussels

Mr Franz Fischler, the European Union commissioner for agriculture, will today move centre stage in the drama over the future of British beef. He is due to announce measures designed to end the devastating crisis facing the country's agricultural industry.

But Mr Fischler's brief extends beyond Britain's borders. The commissioner will have to address the concerns of all Europeans as he attempts to halt the dramatic decline in beef consumption triggered by the British government's announcement last week of a possible link between BSE and human brain disease.

The commissioner's urgent priority will be to prevent the panic which has swept across Europe from becoming a permanent feature, not just for the UK, but for the EU as a whole.

Although his starting point will be a report prepared by the commission's veterinary committee last Friday, his proposals will have to extend beyond the remit of scientists and into the fraught arena of consumer politics. "Nobody trusts politicians or scientists any more," an EU official said. "It is extremely difficult to draw up credible policies when this is the case."

There is therefore little comfort for the public in the committee's conclusion that the new data presented by Britain did "not present evidence that BSE is transmissible to man".

The committee called for a review of EU controls on beef production and sales. Among the changes it recommended were reducing the 30-month age at which calves have to be de-boned and brains, spinal cord, tonsils, spleen, intestines and thymus have to be removed. It also urged tougher measures to ensure that all meat is destroyed if it comes into contact with lymphatic tissue, even if accidentally.

Where the experts drew a line, and where Mr Fischler has to step in, is whether confidence can be restored only by a ban on UK beef and a slaughtering campaign to destroy all potential BSE carriers.

Both measures could appear in Mr Fischler's proposals, but in measured form. On a ban, the commissioner faces the formidable task of trying to convince 12 member states which have banned British beef to end their action. "If British beef is pulling down the rest of the European market, then the commissioner obviously has to seriously consider banning it," an EU diplomat said. Mr Fischler might therefore recommend a temporary ban until tighter controls are in force.

A further possibility is that the commissioner recommends a targeted slaughtering campaign for cattle. "The risks are much smaller the younger the animal is because of the controls on feed introduced in 1989," a scientist specialising in BSE said. "The political question is how much certainty do you want. The answer to that will tell you how many cattle ought to be slaughtered."

Although Mr Fischler's proposals are likely to focus on tighter controls, the commission has already begun to address various options for providing assistance to farmers affected by the crisis.

However, severe budget constraints stand in Mr Fischler's way. "He can't really spend money he does not have," an EU diplomat said. While commitments have already been made for the common agricultural policy's 1996 budget of Ecu 40bn, the commission and member states could decide to make savings elsewhere and divert the money to farmers.

Although the EU is looking at an underspend on the CAP budget for 1997-1999 of about Ecu 4bn, officials believe little of this will emerge as early as next year. Traditionally, one safeguard for farmers has been the EU's intervention system. This obliges the EU to buy beef into intervention should prices fall below 60 per cent of the intervention price and remain there for more than a week.

However, EU officials point out that the commission faces a unique problem. "Beef was always bought into intervention on the assumption that the stocks would be sold on to third countries," said one. "That cannot be guaranteed now, and it remains an open question where this leaves the policy," an EU official said.

In addition, the EU can sell only a limited amount of subsidised exports onto the world market because of limitations laid down under the General Agreement on Tariffs and Trade. EU officials point out, however, that special aid could be made available to farmers if member states make a credible case. "It is up to the member state to convince the Commission, and other EU countries, that there is hardship," an official said.

Farmers lack insurance against BSE-induced slaughter

British farmers said yesterday they had no insurance against BSE-induced slaughter and would require huge compensation to cover replacement animals and lost milk sales, Alison Maitland writes. Mr Chris Wood, a cattle and sheep farmer in north-west England, said a cull of all animals over 30 months would wipe out as many as 140 of his 200 dairy cows. "We're talking about £100,000 ($153,000) a year in lost milk sales alone," he said. "Then there's the cost of importing cows to replace them. An average dairy heifer costs £1,000, but that would go up by £500 at least because of scarcity." He said replacement animals were usually pregnant heifers or heifers that had just calved, so it could take three years for a dairy farm to return to a normal breeding cycle with a mix of younger and older cows. Even if replacements could be imported, milk output would be down because younger animals produce less.

Mr Hugh Black, who has 130 cows at Leominster near the England/Wales border, reckoned the cost of replacing cows would double.

OTHER UK NEWS

Louisiana hopes deal will be model for other US states

By Ralph Atkins, Insurance Correspondent

Lloyd's of London last night won a tactical victory in its attempts to head off a series of legal actions by US state securities regulators which threaten to disrupt the insurance market's recovery plan.

A "standstill agreement" agreed with Louisiana regulators should postpone until August any move to follow regulators in eight other states, including California, guarantee funds held in the US.

Such a move by the courts would seriously undermine the Lloyd's recovery plan which is due to be implemented this summer. Names are individuals whose assets have traditionally supported

LLOYD'S
LLOYD'S OF LONDON

Lloyd's. Lloyd's has won allies, however, among US insurance commissioners who are

claims to policyholders while its issues with regulators are worked out." Mr Brown said he "cannot allow the actions of another state to jeopardise Lloyd's ability to pay claims to policyholders here in Louisiana". He added: "In Louisiana, where we have exposure to major hurricane damage, where we have a massive chemical and energy industry and where we have unique risks like Mardi Gras parades, Lloyd's is the insurer of last resort and a critical component to the solvency of

Maritime earnings fall in City of London

The City of London's earnings from maritime-related services such as ship-broking, legal services and banking fell sharply in the decade to 1994, says a study published by the Chamber of Shipping, our Transport Correspondent writes. The fall reflected the decline in the UK merchant fleet.

Total maritime services earnings, including those from the troubled Lloyd's insurance market, fell from £1.28bn ($1.95bn) in 1984 to £980m in 1994. This represented a decline of £600m or 53 per cent in real terms – after excluding the impact of inflation

sents British ship owners and managers, could not establish a direct link between the decline in maritime services and the shrinking of the UK merchant fleet, said Mr Mark Brownrigg, policy director.

But centres where shipping activities had declined, such as New York, had experienced a parallel loss of services, while others, including Cyprus and Singapore, where maritime activity had increased, had seen a growth in services.

The chamber has been campaigning for greater government support for the UK merchant fleet in the form of tax

Former 'minister for Europe' to quit House of Commons

By Our Political Editor

Mr Tristan Garel-Jones, a strong supporter of Britain's membership of the European Union, is to stand down as a Conservative MP at the general election. As a minister at the Foreign Office in the early 1990s, he played a central role in heading off attacks by the party's Eurosceptics on the Maastricht treaty. Mr Garel-Jones, a close political ally of Mr John Major, the prime minister, became known as "minister for Europe".

Mr Garel-Jones said he had "I would have a role to play in keeping the party sane in opposition." He is the 54th Tory MP to decide to go. Like many of the other quitters, this famously outspoken Conservative leftwinger is in his mid 50s, and no longer has ambitions for cabinet office.

His departure may signal the high-water mark in the influence of the Blue Chip group, a dining club seen by many as a powerful cabal. It was set up in 1979 by Mr Garel-Jones and other bright young Tory MPs elected that year.

Its leading figures are Garel- to secure Mr Major's election as party leader in succession to Mrs Margaret Thatcher in 1990.

A committed pro-European, Mr Garel Jones criticises his party's Eurosceptics, whom he described as "dotty and eccentric". He attacked a parliamentary system which made these individuals into "great figures", able to hold the government to ransom because of its slim majority.

Mr Garel-Jones opposes the sceptics' calls for the UK to scale down its involvement in the European Union and make a commitment to remaining

THIS WEEK

Chronicle of a death unforetold

DATELINE

Buenos Aires: a trial to establish the identity of a young girl's killer after a six-year investigation holds 8m Argentines mesmerised, writes **David Pilling**

Each day, 8n Argentines feverishly reach for their remote control and click themselves into the bizarre world of María Soledad, an everyday tale of Carmelite nuns, cocaine, kinky sex and political coverup.

More farfetched than any Latin American soap opera, weirder than any novel by Gabriel García Márquez, the story that daily mesmerizes Argentines from Buenos Aires to Tierra del Fuego has the dubious distinction of being true.

María Soledad Morales was 17 when her mutilated and cocaine-saturated body was discovered in a ditch in the dirt-poor province of Catamarca, northern Argentina. The televised trial of her two suspected killers, conducted in a grubby courtroom in the Catamarcan capital of San Fernando del Valle, has become Argentina's version of the O.J. Simpson case.

Last month, the trial of Guillermo Luque, son of a local politico, and Luís Tula, María Soledad's former lover, began. San Fernando, normally a fly-swatting town in the remote foothills of the Andes, has become a seething mass of cameras and pencil-packing reporters.

The pavement outside the mean little courthouse is a permanent battleground where Catamarcan residents, prosecutors and witnesses wield their pet theories like dangerous weapons. When the trial stops for a break, television stations are bombarded with complaints by viewers desperate for more coverage.

The "facts" – if one can speak of facts in a case where, after six years of investigation, rumour and evidence have fused – are as follows.

The body of María Soledad, a schoolgirl at the Colegio del Carmen Catholic girls' school, was found scalped and disfigured in September 1990. She was last seen alive days earlier when she had left her parents' home for the Clivus disco, the alleged scene of regular *fiestas negras*: "black parties" where drugs and indiscriminate sex were said to abound.

The first autopsy of María Soledad's body was not as thorough as it might have been. Amazingly, it failed to establish the time or cause of death, or even the victim's blood group. Important clues vanished without trace.

Rumours circulated that Guillermo Luque, son of the then congressmen Angel Luque, had been seen with María Soledad the night she disappeared. Rumours also spread that a body-sized bundle had been smuggled into the local hospital before being spirited away.

The word "cover-up" hung heavy in the air. The public's finger pointed nervously at the Saadis, Peronist allies of the Luques and the political dynasty that had run Catamarca like a private company for 40 years.

It was only the silent marches organised by a Carmelite nun, headmistress at María Soledad's school, that brought the case national attention. On one occasion, 30,000 protesters, a third of the town's population, filed quiet as the grave into the main plaza, demanding justice.

Two "untouchables" – federal investigators immune from local influence – started nosing around. At their instigation, the local police chief was clapped in jail for allegedly tampering with evidence, and Guillermo Luque was charged on suspicion of murder. Luís Tula, the victim's former lover, was also charged.

Six years and nine judges later, the trial has finally started. But strange things have begun to happen in court. several witnesses, who in 1990 gave sworn testimony that they saw Luque with María Soledad, have gone back on their story. Other witnesses have come forward swearing that Luque was in Buenos Aires at the time of the murder, an alibi seemingly supported by several credit-card stubs. Hospital functionaries who once claimed that María Soledad was brought to the Pasteur institute have mysteriously lost all recollection of that fateful night.

The courtroom, where proceedings are conducted with all the decorum of a bar-room brawl, has heard wild and contradictory allegations. Some witnesses have said political pressure was brought to bear to pin the murder on Tula, an ordinary citizen. Others maintain that Luque, not Tula, has been framed. "Experts" testify that only a homosexual could have committed the crime, while "criminologists" assure the courtroom that the murder betrays the unmistakable trace of a woman's hand.

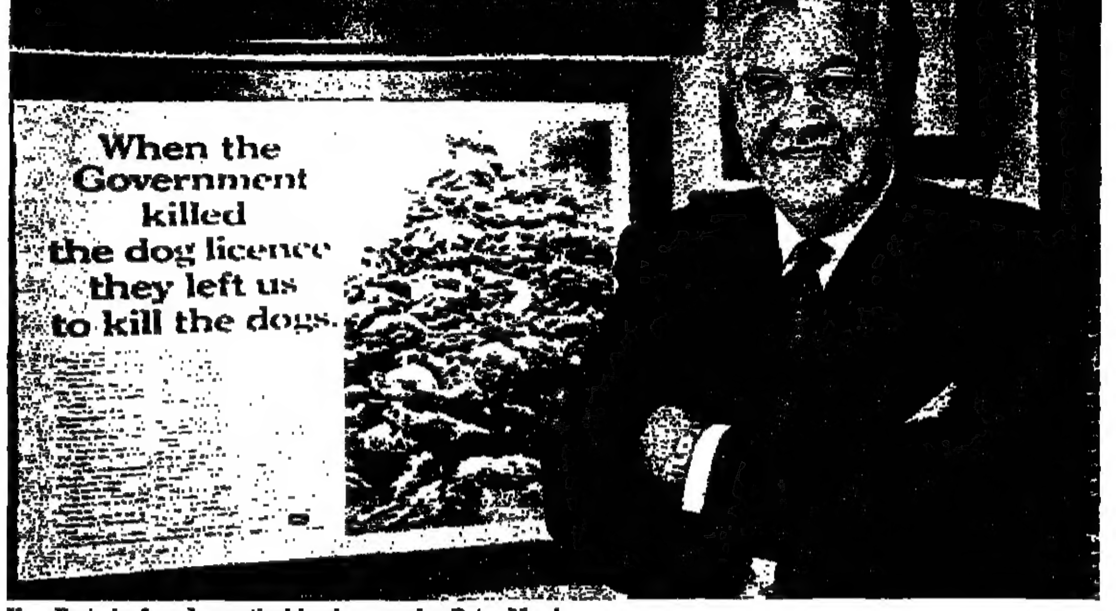
According to a recent opinion poll, published in *Noticias* magazine, a third of Argentines believe Luque is responsible, while 28 per cent say Luque and Tula murdered María Soledad together. Six per cent believe Tula acted alone, with 5 per cent casting suspicion on Ruth Salazar, Tula's wife. Even Peronist President Carlos Menem, perhaps not wishing to witness the downfall of Catamarca's Peronist dynasty, has made it known that he believes Luque to be innocent.

Meanwhile, María Soledad has become a martyr. Catamarcans make their way to her simple tomb, praying for help. Miracles have resulted, kidney stones melting away and marital problems overcome. But the real miracle would be if the identity of María Soledad's killer were securely established – and justice truly done.

PEOPLE

Ad agency lion runs the Den

Peter Mead, once an outsider, now chairs Millwall, writes Diane Summers



Usually to be found wreathed in cigar smoke: Peter Mead

At 16, Peter Mead's first job interview in London left him feeling a distinct outsider. A snooty lady in the personnel department of J Walter Thompson, the advertising agency, offered him a job in the despatch department at £3.5 a week. Mead recalls she concluded the interview by telling him the company had a staff canteen but on his wages, he wouldn't be able to afford to use it. He had permission, however, to sit and eat his sandwiches in Berkeley Square, which JWT overlooks.

Mead, a large, charming, unpretentious man, normally to be found wreathed in cigarette smoke, is now chief executive of Abbott Mead Vickers, one of London's top ad agencies. He celebrated his 56th birthday last Friday by calculating his holding in the group he co-founded as being worth "a little over £5m".

The value of his shares had been boosted last Thursday when the group, as usual, announced record results – pre-tax profits up 27 per cent to £10.4m – and the City responded enthusiastically to the launch of an £18m rights issue. A chunky acquisition by the group, which includes among its clients British Telecommunications, Pepsico, Sainsbury and Volvo, is expected shortly.

In the same week, Mead's other – very different – love also featured on financial pages when Millwall, the quoted south London football club he chairs, announced it hoped to be spending £25m on a diversified clutch of small-company purchases in the advertising, media, communications and leisure areas.

The plan of newly appointed Millwall chief executive, Graham Robson, an old pal of Mead's and former head of Dalgety's consumer food business, is to produce annual operating profits for the beleaguered club of £8m. Last year, £584,000 was lost on turnover of £4.3m.

Mead's passionate association with Millwall, whose fans have had an unsavoury reputation for racism, violence and vandalism and who sing *"No One Likes Us, We Don't Care"*, goes back to childhood. He went to matches with his father, a fanatical supporter, who had a small window-cleaning business.

Born in Bermondsey, east London, Mead says he got off to a good start as a star pupil at primary school but "never recovered from passing the 11-plus and going to grammar school", where he felt he was "nobody at all". A steady downwards academic slide left him looking for a job at 16, and his first humiliating interview.

JWT was rejected by the young Mead in favour of an agency called S H Benson, which offered him the same £3.50 but allowed him to eat his lunch inside the building.

After seven years he had the distinction of being, he believes, the first person ever made redundant by Benson's. He received £900 – a fortune at the time, especially as he got another job within two weeks – but remembers the trepidation with which he rang the doorbell at home on the day he was sacked.

When he founded his first agency, Byfield Mead, he had his second experience of being thrown out. His co-partners phoned him at 7.30 one morning as he was emerging from the bath, and said they were coming round. There had been differences of opinion for some time over management style and direction of the company. Within 15 minutes they were banging on the door. He had one sock on when they delivered their *coup de grâce*. "It was a gang up and I went," he says.

In its decade as a public company, and indeed since its formation in 1977, Abbott Mead Vickers has had a policy of never making anyone redundant – remarkable given the slimmings and sackings most ad agencies experienced during the recession. Mead says his own experiences had an effect on the way he performs as a boss. "Not enough people understand the real human misery they mete out," he says.

The group is unusual in its principled stand in other areas, too. In spite of Mead's 30-cigarettes-a-day habit, it accepts no work for tobacco companies, and also refuses to work for toy companies.

These days, Mead drives an Aston Martin and lives in leafy Twickenham, a long way from Millwall, with his wife, Sammy. She has a catering company called The Mobile Mouthful. His three sons, Billy, Ben and Harry, are 15, 12 and five.

Explaining the no-toys advertising rule, Mead says: "I see my own children watching television on a Saturday morning and saying: 'I want one of those, can I have one of those please'. Imagine being out of work and already feeling upset you couldn't provide them with what they wanted, and then having increased pressure put on you on Saturday mornings. I just wouldn't want to be party to that."

N NAMES IN THE NEWS

Beall's Rockwell decision attracts praise not bullets

In the sniper-infested undergrowth of the US business environment, it is not often that surrender is seen as a sign of strength, reports **Christopher Parkes in Los Angeles.** But Donald Beall's decision to seek a buyer for Rockwell International's defence and aerospace divisions has won him more bouquets than incoming fire.

The energetic group chairman has spent almost 10 years successfully filling gaps left by shrinking federal and aviation industry orders with commercial businesses.

Rockwell has remained consistently profitable even though nearly 30 other business units have been sold off to fund Beall's search for revenues in growth areas where he believed the group might regain its reputation as an industry leader. The renowned, successful, but low-growth Goss and Baker Perkins printing machinery is newly on the market, and expected to bring $500m (£327m) for fresh investment.

Generous investment has increased sales of the semiconductor systems subsidiary four-fold in five years. And the group has moved into manufacturing products as diverse as truck axles and fax machines.

Admirers speak of Beall's "obsession" with redirection. Detractors complain that he has done merely a middling job of blowing his own trumpet. Only lately have his public relations efforts been diverted to presenting the "new look" Rockwell.

The latest annual report carries the sub-title: "It's time to change your perception of Rockwell", even though the group has been in transformation for almost a decade.

Still, even in California, home to most of the divisions now on the block, and where the group's workforce has been cut by half to 17,500, Beall retains the reputation of a man careful to consider all the effects – social, economic and corporate – of his decisions.

The $1bn-sales defence electronics business remains a prosperous and highly attractive purchase for other, bigger groups which have moved recently to regroup the assets of the US industry.

Beall is said to have looked for purchases to enhance prospects of businesses now on offer. Some suggest he was caught on the hop by the recent spate of transactions among Northrop Grumman, Westinghouse, Loral and Lockheed Martin, Raytheon and E-Systems.

He has opened up shop when interest in what he has to sell is at a peak. Shareholders are unlikely to be disappointed.

Dickson Poon, rare species of tycoon

Dickson Poon, who plans to take upmarket London department store Harvey Nichols public, is that rare breed of Hong Kong businessman: one who has had a fair amount of success outside the colony, *writes Louise Lucas in Hong Kong.*

Dickson Concepts (International), 51 per cent owned by Poon, is widely credited with turning Harvey Nichols round after buying it in 1991 for £51m. Dickson additions include a lavish food hall and restaurant.

Poon started his career on the ground floor, as a sales assistant in one of his father's watch and jewellery boutiques. That was an odd career choice, perhaps, given an expensive education in England and the US, where he studied philosophy and economics. But the young Poon had also spent 18 months in Switzerland learning his father's craft.

On his return to Hong Kong, the 24-year-old lost no time in founding his own group of companies, with the opening of his first watch and jewellery boutique. The Dickson empire has since swollen to include ST Dupont, the French luxury goods group, and a raft of distribution deals sewn up with the likes of Polo/Ralph Lauren and Warner Bros Consumer Products.

Dickson Concepts last year notched up pre-tax profits of HK$405m (£34m) on sales of HK$3.3bn. The proposed Harvey Nichols flotation, through a placement of 49.9 per cent of the Dickson holding, stands to raise between £70m and £80m for the group. Poon says he is open minded as to how this money is spent. Analysts expect to see the creation of a new brand.

The money is unlikely to go into China, where the group has more than 20 shops and a luxurious – and, for a long time, loss-making – shopping arcade in Shanghai.

Spending the Harvey Nichols windfall, which will exceed Dickson Concept's original investment, including the initial £17m revamp, should not prove difficult for a company with interests spanning the far east and much of Europe. For Poon, who has his 40th birthday in June, the fruits of running a truly international business from Hong Kong have arrived early.

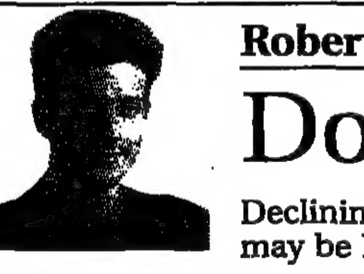
Bic family loses founder's son Claude

The secretive Bich family, which holds the largest share of Bic, the French-based disposable biros, razors and lighters manufacturer, suffered a fresh blow a week ago with the death of Claude, one of the sons of the founder of the group, *reports Andrew Jack in Paris.*

Baron Marcel Bich, who kept a firm grip on the company until the 1990s, died in 1994, aged 74.

Claude was among several of the Baron's 11 children who followed their father into the group. Together they still hold the largest number of its shares. Claude and his brother François were both on the board, while their sister, Marie-Anne Aimée Bich-Dufour, is a managing director. Most important is Bruno, third oldest son, who took over as chairman from his father.

The baron always stressed the importance of advertising, and today the group still spends considerable sums and uses eye-catching publicity, including recent television adverts using Manchester United's French soccer star Eric Cantona.



Robert Chote · Economics Notebook

Dollar may still surprise bears

Declining popularity of the dollar as the chief reserve asset among the world's central banks may be leading doom-saying currency analysts into unreliable inferences

When currency analysts need an excuse to be bearish about the US dollar's long-term prospects, one of the first they light upon is its declining popularity among the world's central banks. In 1978 central banks held more than 70 per cent of their reserves in dollars, but now barely 50 per cent.

Is the dollar doomed as the world's principal reserve asset? If the pattern of the last two decades continues, then it is indeed on borrowed time. The dollar's market share in the pool of official reserves has fallen by more than one percentage point a year on average since 1976, while the D-mark and Japanese yen have each gained about two-fifths of a percentage point a year.

Professor Christian de Boissieu, of the University of Paris (Sorbonne), told a seminar at the International Monetary Fund last week that at this rate the dollar would be overtaken by the D-mark in 2023 and by the yen in 2028. But history does not move in straight lines. De Boissieu argued that the creation of a single European currency could accelerate the dollar's demise, but there are other factors which might well extend its reign.

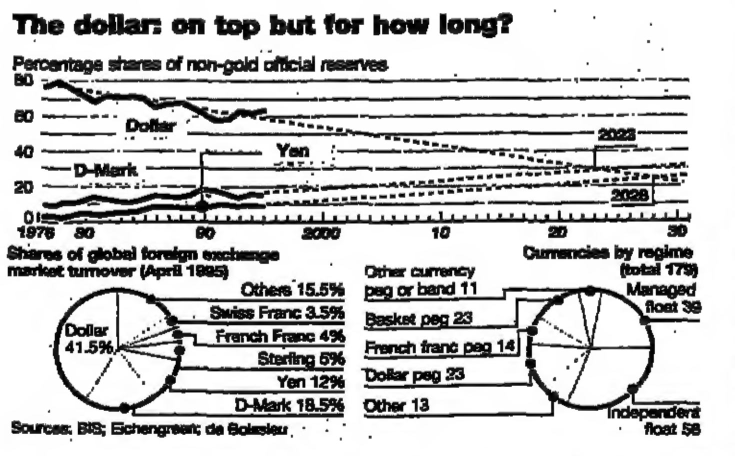
Not even the grizzliest of bears expects the dollar to be displaced in the near future, but the short-term outlook is nonetheless uncertain. In the last few years it has become increasingly fashionable in the US to bemoan the dollar's declining international role, seeing in it a reflection of wider relative economic decline. Ironically, this gloomy mood has taken hold at a time when the trend of the 1970s and 1980s has gone into reverse, lifting the dollar's share in foreign exchange reserves significantly between 1990 and 1994.

However, this recent rise in the dollar's reserve share has in large part been a function of its weakness on the foreign exchanges, which does not bode well for the currency's future status. Central banks in Japan and Europe have been buying dollars and adding them to their reserves in order to prevent the currency falling too far and giving US companies too big a competitive advantage.

Professors Barry Eichengreen and Jeffrey Frankel, of the University of California (Berkeley), told last week's seminar that the dollar appeared to be losing ground to its rivals again, especially among east Asian central banks. These central banks are expected to continue diversifying their reserve holdings out of dollars and into yen, reflecting the fact that their debts are increasingly denominated in the Japanese currency.

Japan, Taiwan, China, Singapore and Hong Kong are now among the world's largest holders of foreign exchange reserves, a testament to their rapid economic growth and attractiveness to capital inflows. Dollar bears argue that portfolio diversification by their central banks could see the yen overtake the dollar's reserve share, but Eichengreen and Frankel are not convinced. They expect economic growth rates in Asia to fall closer to those elsewhere, limiting the accumulation of reserves. They also point out that Japan itself cannot hold yen as reserves.

The dollar: on top but for how long?



Sources: BIS; Eichengreen; de Boissieu

Perhaps the best reason for expecting the dollar still to be the world's principal reserve asset in 30 or 40 years' time is the knowledge that it holds the position now. Like the English language, the dollar benefits from a "positive externality" – lots of people around the world use it because they know that lots of other people around the world use it as well. This means that it will be very hard for a challenger to overtake the dollar rather than simply to erode its lead.

The dollar will remain attractive as a reserve asset in part because it is dominant in other areas:

● The dollar is the domestic currency of the world's largest economy. Eichengreen and Frankel argue that most of the decline in the dollar's reserve share during the last 25 years can be explained by its falling share in world economic output. Even so, Japan – with half the population, less land and fewer natural resources – is unlikely to overtake it in economic size. The "Euro" area could in principle become the world's largest economy and, in the longer term, so could China. But their financial markets are shallower and less open than those in the US.

● The dollar is the favourite choice of governments which wish to peg their own currencies to someone else's. Last year, 23 currencies were pegged to the dollar while none was pegged to the yen and only one, the Estonian kroon, was pegged to the D-mark. Even in Asia, the dollar remains the most popular peg.

● The dollar dominates transactions on the global foreign exchange market. According to the Bank for International Settlements, 83 per cent of market transactions in April last year involved the dollar, compared to 37 per cent for the D-mark and 24 per cent for the yen. The dollar's share has fallen in recent years, but remains well ahead of its rivals.

● The dollar also dominates international financial transactions in the form of loans, bond issues and deposits. Heavy lending by the Japanese government doubled the yen's share of long-term external financing in Thailand, Indonesia, Malaysia, Korea and the Philippines in the 1980s, but taking the east Asia and Pacific region as a whole, the yen has still not overtaken the dollar as the currency of long-term debt.

● The dollar is the first currency people outside the US turn to when inflation, social unrest or political instability undermine their faith in the local currency, or when they need to carry out illegal international transactions. With about $240bn in cash circulating outside its borders last year, these foreign holdings, which in effect allow the government to sell debt overseas without paying interest, earned the US $12bn in "seignorage".

These factors give the dollar an enormous incumbent advantage. But if there is to be a threat to its status as principal reserve asset in coming decades, the most likely candidate is the putative Euro.

The size of the European economy alone will not be enough to secure a Euro victory, however. Investors, governments and individuals will also have to develop at least as much confidence in the economic policies and political stability which support the Euro than in those which support the dollar. It is always possible, of course, that the US will choose to inflate away its foreign debt while Europe follows the path of monetary virtue. But would you really bet on it?

MANAGEMENT

Evolution not revolution

Once a by-word for poor performance, radical action was necessary to overhaul the GKN division, writes **Stefan Wagstyl**

In the mid-1980s faults were so plentiful on the vehicle drivelines made at Hardy Spicer in Birmingham that nobody bothered to count them. Today, the company is down to 75 faults per million parts. And that includes poor packaging and late delivery. "If we make a mistake with a label, that's a fault," says Tom Wood, who runs Hardy Spicer. "That's how much we have changed."

Ten years ago, Hardy Spicer, a subsidiary of the auto driveline division of GKN, the engineering company, was a by-word for poor performance in the group. Today, it is seen as a much improved plant in GKN's worldwide operations. "Quality, delivery, productivity were all poor. This business was a disaster," says Tom Wood, who is managing director of GKN's UK driveline operations. "Today, we are much better than we were, though we still have some way to go on the path of continuous improvement."

Outside experts agree, among them Dan Jones, a professor at Cardiff Business School who studies worldwide changes in manufacturing. "If you compare Hardy Spicer today with what was there 10 years ago, wow, what a difference."

The transformation which Wood and his colleagues have carried out owes much to the pressure imposed on the British auto components makers by the Japanese car makers which have established assembly plants in the UK since the 1980s. Many of the factory-floor changes carried out at Hardy Spicer were introduced with the help of experts from Japanese companies. Overhauling Hardy Spicer proved even more challenging than building a Japanese-style plant on a new site in the UK. As Wood says: "It is one thing to introduce modern manufacturing techniques on a greenfield site and quite another to do it in an established plant. It had to be evolution not revolution."

Moreover, the Hardy Spicer workforce was particularly resistant to change because in the 1960s and 1970s it had been one of the UK's most successful components plants. It had pioneered a world-beating invention – the constant velocity joint, the device behind the development of front-wheel drive cars and a big contributor to GKN's profits. Wood, who has worked 40 years at Hardy Spicer, says: "We were complacent. We thought we knew everything there was to know about CVJs."

GKN first became concerned about Hardy Spicer's performance in the mid-1980s, when Nissan Motor established the first Japanese-owned UK assembly plant and started making increasing demands on British suppliers. The plant and its 2,000 workers struggled to meet Japanese standards for quality, delivery and price. Hardy Spicer's profits slumped from a peak of £11.65m in 1986 to a loss of £5.88m in 1989, on an unchanged turnover of about £80m.

Piecemeal changes – including an expensive investment in a state-of-the-art robot production line – failed to stop the red ink. So in 1990 GKN replaced the management and put Wood in charge.

Wood inherited a sprawling plant with little clear distinction between different stages of the manufacturing process and awash with stock and work-in-progress. Rigid divisions between engineering, production, quality control and sales further clogged the flow of information and slowed decision-making. Managers rarely spoke directly to shopfloor workers, but through a powerful trade union organisation manned by four full-time officials.

Wood realised that decision-making had to be greatly speeded up to match the car makers' increasingly exacting standards. As well as Nissan's demands, GKN had to cope with the increasingly tough requirements of established British manufacturers as they responded to Japanese competition.

The plant was reorganised into six small units, each responsible for a different stage of manufacturing, so that the problems in each stage could be detected and tackled. In order to improve links with customers, managers set up inter-departmental business units made up of representatives of the key functions – engineering, production, quality and sales. Each big customer was assigned to a separate unit. Wood says this was vital to cope with the demands, introduced by Japanese companies, for close co-operation in the development of new models.

At the same time, executives sought to raise morale and quality standards by launching company-wide training schemes. To foster a new sense of unity the old distinction between managers in suits and workers in overalls was abolished and everyone was instructed to wear a company uniform.

The shopfloor was reorganised: instead of standing in straight production lines, machines were put into U-shaped cells, so that the workers responsible for a particular process stood close enough to each other to support each other and take joint responsibility for quality.

But it was not enough. In 1992-93, according to reports in the industry, the company ran into serious difficulties supplying CVJs for a new Nissan model – the Micra. Nissan declared the parts were sub-standard. Industry executives say more than 10 per cent of the output was being scrapped or needed reworking before leaving the factory. Wood says: "It was a shock to people here. We thought we knew how to make CVJs."

The crisis forced the company into more radical action. Managers took the difficult decision of asking Nissan executives to examine the plant and suggest reforms. Nissan highlighted poor communications as the key weakness, so Wood launched a wide-ranging programme. He introduced weekly briefings and an internal newsletter giving up-to-date commercial information about the plant's performance and problems. Notice boards were put up setting out numerical targets for quality and other performance measures. A layer of managers was cut out to accelerate information flows. In Japanese fashion, the factory was adorned with posters extolling the virtues of quality and of empowerment.

As waste was cut, so manning levels fell – from 2,000 to 1,000. The overriding need to raise standards persuaded trade union officials to accede to the job cuts and to changes in working practices. Demarcation lines were eroded. Workers were encouraged to take responsibility for all parts of their work. Gradually, trade union officials responded, recognising the need for more flexible manufacturing techniques. Dallas Lowe, a fitter with 30 years' experience, says: "They tried to make us feel proud of our work areas. They wanted us to know that if we did a bad job we buggered up the next guy."

Managers, long accustomed to be wary of change for fear of offending trade union officials, were sent on courses to encourage them to become more active. Despite the pressure on costs, Wood, concerned by the fact that many of his salaried staff were paid less than the hourly-paid shopfloor workers they supervised, committed himself to raising staff pay. "Don't think any of this was easy," he says, "It was very hard."

While the company invested in some new equipment, it kept spending under tight control, laying out a modest £12m by the end of 1995. Wood says new machines were no answer when the company was not making full use of its existing plant.

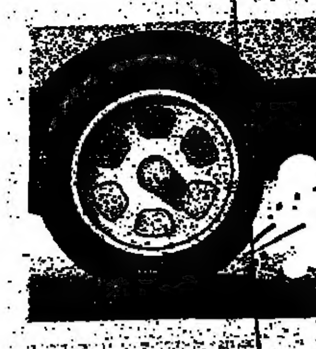
Gradually, the company's efforts began to pay off. Faults per million parts, measured in thousands at the time of the Micra troubles, fell to 815 in 1993 and 75 last year. The target for 1996 is 50 – and the long-term aim just 10. The number of times a year that stock is turned over – a key measure of production efficiency – has soared from 11 times a year in 1993 to just under 20 times last year. Output per man has doubled. Profits for the UK driveline business, which includes Hardy Spicer, have leapt to £6.1m pre-tax in 1994 and rose further last year. At the same time, the factory won its first quality supplier award – from Rover, the carmaker now owned by Germany's BMW.

Wood insists that there is still a lot more to do. Output per man is still 20-30 per cent below levels at the best factories in GKN's international network. The workforce accepts that further improvements are needed in output per shift. Managers would like to phase out an existing complex range of shift patterns with a streamlined system of three, eight-hour shifts a day. It will require another quantum leap in quality standards to reach the aim of 10 faults per million parts.

Jones in Cardiff says: "Hardy Spicer is now equal in quality with an average Japanese plant. But they don't yet match the best Japanese factories, which are the best in the world."

Hardy Spicer is facing up to the challenge. It recently recruited new operations director, Chris Gubby, a former manager at Toyota Motor's UK plant and an expert on Toyota's production methods, which are acknowledged in the industry as the world's best. His goal is to end batch production, in which components are made in batches then stored in buffer stocks until they are used further down the production process. Instead, Gubby wants to introduce a Toyota-style continuous production system in which buffer stocks are eliminated and parts are made only for immediate use in assembling finished drivelines. Gubby says that there is nothing that Japanese companies do that cannot be adapted for the UK. "It's not a cultural question it's a managerial one." Meanwhile, Wood has maintained the push for quality by establishing a "concern management room" on the shopfloor. Workers are encouraged to walk into the glass-panelled room whenever they have any concerns about their work or their colleagues'. Any problem has to be brought under control in 24 hours and a solution found within five days. Since its establishment 18 months ago, customers' complaints have fallen by half.

The concern room is so successful that even the company's mentors at Nissan have come to see how it operates. Wood says: "Now there are things they can learn from us. I couldn't have said that a few years ago."



FAST TRACK

Lavipharm

With a tourism-led economy and an unwieldy bureaucracy, Greece is not an obvious base for an innovative pharmaceuticals producer. But the Lavipharm group has kept holidaymakers in mind while expanding its product range from cosmetics to advanced drug delivery systems.

Lavipharm has started to specialise in transdermal patches that gradually release medication into the bloodstream through the pores of the skin. Last year it launched Trinipatch, a transparent square no bigger than a postage stamp and just as thin. It delivers a daily dose of nitroglycerine for heart patients, dissolved in adhesive layer.

Athanasios Lavidas, chairman of the group, says: "Unobtrusive skin patches can be worn on the beach, and you don't have to worry about remembering to take pills."

Lavipharm is already selling its nitroglycerine patch in western Europe through a Paris-based marketing subsidiary, Laboratoires Lavipharm. It is awaiting approval from the US federal drug administration to launch the product in the US, where clinical trials were carried out and where Lavipharm collaborates with university-based researchers. The company's R&D team is also working on skin patches for pain management and for preventing osteoporosis.

Lavipharm believes its focus on skin patches will bring rapid results. The international market for transdermal drugs is projected to double to [illegible] by 1998. Exports of Trinipatch are expected to boost sales this year by more than 30 per cent.

Lavidas says the potential for new transdermal products outweighs the obstacles to developing new pharmaceutical products in a country without a tradition of medical research. Lavipharm's development team faces delays caused by red tape, for example, in importing opiates for its research into pain treatment.

Lavipharm attracts foreign drug producers to co-operate on projects due to lower laboratory costs in Greece, where salaries for US-trained scientists are far less than in western Europe.

The group's research effort is backed by its core business of manufacturing and distributing traditional pharmaceuticals and cosmetics. Lavipharm diversified into cosmetics as a protective measure against the effects of mergers among international producers, which have stripped away local manufacturers' licensing agreements.

Sales grew from Dr20bn (£54m) in 1994 to Dr30bn last year. The group went public last October, raising Dr2.8bn on the Athens stock exchange to write down short-term debt and provide funds for new investment.

Lavidas, who succeeded an uncle as managing director, says: "The aim is to create an integrated pharmaceuticals group that goes all the way from research to retailing."

In the past three years, one Lavipharm subsidiary has developed a line of low-priced cosmetics for sale in eastern Europe, another has set up a "just-in-time" warehousing system to speed up deliveries of 6,000 products to Greek pharmacies using software produced in-house.

Kerin Hope

Crossed wires and subtle nuances

Lucy Kellaway

I have just received an invitation to attend a one-day seminar called "Communication Skills for Women: Achieving Confidence, Credibility and Composure. (Only £99+VAT! Learn the most forceful words in the language and use them to multiply your communications power!)". I threw it in the bin. All those facile tips – seven great ways to improve the quality of your voice or five easy steps to high-impact, memorable language – are equally useful (or useless) for men as for women.

The justification offered for this course – and for all the other new ones aimed at women managers – is that while the lessons are the same, learning is more relaxed and fun in an all-women environment. That sounds to me like the argument commonly given for single-sex schools: girls learn better when there are no boys about. If all this were true, I cannot see why we do not have special companies staffed entirely by women.

These seminars miss the point: women desperately do need their own communications courses, but the reason is that male and female managers communicate in different ways. I was convinced of this after reading Deborah Tannen, a US academic, who has written an entire book of examples of the way the sexes get their wires crossed at work. One woman boss tells a male subordinate the report he has written is useless, but she does it so tactfully that he does not notice he is even being criticised. He returns the report unchanged, she gets cross, and he feels aggrieved that she had not been blunter in the first place. There is a difficulty in a course that would make male and female managers recognise nuances of this sort: it might take closer to a lifetime than one day to achieve.

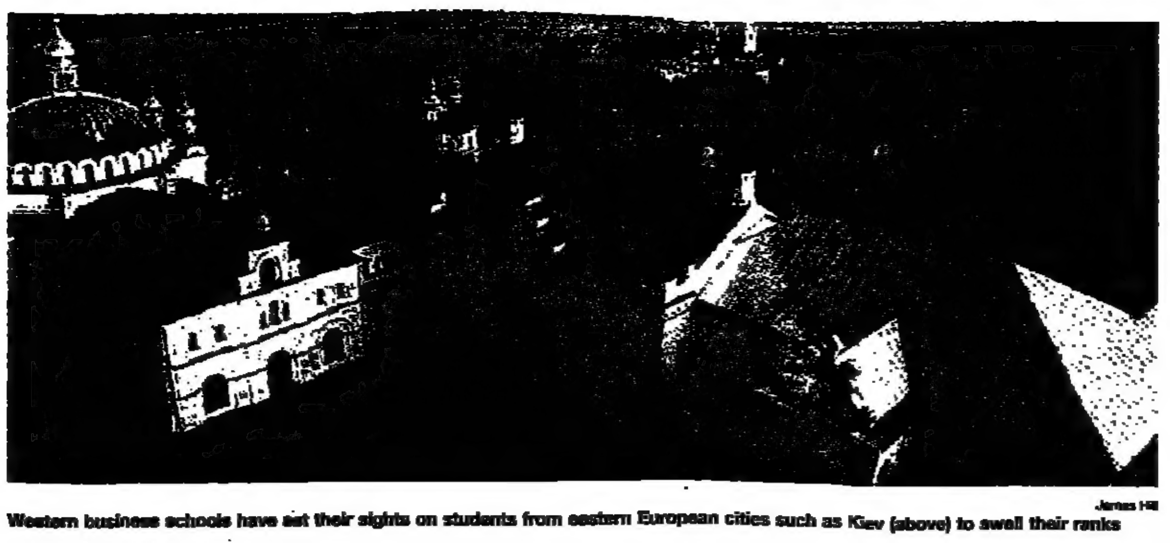
Sid Joynson, a Yorkshire foundry worker turned management consultant, made the news last week for teaching people in the City to smile more. This man, who has been retained by Standard Chartered, likes to teach employees how to run weekly happy hour team meetings, and how to perform two random acts of kindness every day. I wish him luck, but I do not like his chances. After all, the Church of England has been trying for centuries to teach people to be kinder to each other: it is hard to believe that Joynson will succeed where Jesus is still struggling.

However, the thing that most alarms me about Joynson is the fact that he begins his presentations by saying that CBI stands for "complete bloody idiots". We all know that it is a good idea to start a talk by saying something shocking. But this does not shock me at all. Targets do not come much softer than the CBI (unless, of course one includes the Institute of Directors). If he wants to be outrageous he would do better to say that the CBI stands for "Confederation of Brilliant Industrialists".

Last week I said that sex could be used to sell most things with the possible exception of funeral services and building materials. I have been put right on the latter count by a reader who has sent me an advertisement that appeared in the highly acclaimed *International Molers' Monthly*. I had thought that moling was killing the little animals that mess up your lawn, but the reader tells me it is a civil engineering term for the destructive replacement of pipework. Anyway, the picture shows a fat, naked workman wearing a hard hat and holding a large blue pipe in an obscene pose. "With HEP,0, he makes the earth move. (But only once.)," says the caption. I looked at that for some time with disbelief, but my sense of unreality increased when I turned the page to find a serious piece of editorial entitled "New York City Sludge Management Programme".

Sludge management. I like the sound of it. Quite by accident I think I have stumbled on a useful concept. Sludge management is surely what is left behind when you have done your total quality management, your continuous improvement, your re-engineering and nothing has worked. Every week provides fresh evidence of the extent of managerial sludge: a report from Industrial Relations Services last week showed that continuous improvement programmes tend to fail because managers are Luddites who will not listen to suggestions made by underlings.

The report made shocking reading, less because it pointed out that these schemes do not always work but because it detailed some of the things that are required for success. Continuous improvement sounds sensible enough when it simply means that employees identify problems and suggest solutions. But according to IRS, the "basic toolkit" needed for a successful CI programme includes "checklists, Pareto analysis, cause and effect diagrams, brainstorming, matrix diagrams, criteria rating and benchmarking". I do not know what half these things are but I bet they are good at killing all ideas stone dead.



Western business schools have set their sights on students from eastern European cities such as Kiev (above) to swell their ranks

James Hill

Kiev viewpoint

Matthew Kaminski joins a group of Ukrainians who hope to study for their business degrees in France and Spain

Bright business cards, bearing the logos of Kiev banks and western multinationals, flashed left and right. The crowd of recipients, mostly in their 20s, wore ties or smart suits, ready to impress and to be wooed.

These were Ukraine's presumptive commercial elite, or at least its more respectable members, who gathered this month at a staid Soviet hotel to hear a marketing pitch from two of Europe's top business schools.

Western-educated managers are much in demand both among foreign companies in the region and local firms anxious to compete on the world stage. But local business schools are not keeping pace with this demand, said Helen Henderson, director for eastern Europe recruiting at Insead, in Fontainebleau, France.

Insead wants to increase its eastern European enrolment to 10 per cent next year, up from 4 per cent in the class of 1996. Representatives from Insead and the International School of Management at the University of Navarra (Iese), in Spain, the second European business school hoping to woo eastern European students, are recruiting in 15 eastern European cities this year.

"In this region we expect there'll be opportunities for you to start your own companies and create new jobs," Henderson told some 100 Ukrainian and a few foreign prospective students.

Among the Ukrainians, many of whom work for western companies in Kiev, the bottom line has become clear: credentials matter in a free market economy. At first, the old communist elite – and its many younger members from the communist youth leagues, the *komsomol* – took over leading positions at the new banks and companies, started on the strength of government connections.

"No one used to care about educational qualifications," said Dmytro Chernobai, 29, in flawless English. "Now it's different. As companies try to get into foreign exchange and other sophisticated operations, experience and training are crucial."

Ukraine has one of the worst-performing economies in the old communist bloc – the gross domestic product fell 12 per cent last year. But the younger generation seemed bullish about the future.

No one saw business schools as an opportunity to emigrate, just to gain experience abroad. "The Ukraine's my country," said Yuri Zastavny, who works for Credit Lyonnais. "Business school makes you tougher, and this is exactly what people need to work and survive here."

Yet Dmytro Marushkevich, currently studying for a modular master of business administration (MBA) degree at the Maastricht Business School, explained that an MBA might be a good insurance policy, an exit visa, should the communists come back to power in Russia and Ukraine. He works for Utel, AT&T's local telecommunications joint venture.

Tuition fees drew the most interest – and the most gasps – at the presentation.

The MBA courses at Insead and Iese would cost about $30,000 (£19,600), not including expenses – or more than 40 times the average yearly income in Ukraine.

For most students, the risk outweighed the benefit. Not even the promise of a favourable loan convinced the doubters – loans financed by the Dutch bank ABN Amro and the European Bank for Reconstruction and Development require the students to put up no collateral and give them 12 years to repay the money.

"What a luxury," said Oleksandr Volkov, who accompanied his 20-year-old daughter, Katya. "The people in our country who can afford that don't need an MBA."

The ex-communist elite and the *mafiya* are, in the popular mind, the country's richest classes. In a conservative society repressed by seven decades under Soviet rule, the successful risk takers are often less than savoury characters. And this worries some recruiters.

"The human capital is the same everywhere – and their Gmat [graduate management admissions test] maths results are incredibly high," said Heinrich von Liechtenstein, vice-president of Iese's alumni association, who has travelled throughout the region.

But, he added: "It's a matter of concern that business honesty and integrity are not that high in these countries. The approach to business of people who grew up with capitalism and those of people who just saw five years of it here varies greatly."

Many Ukrainian observers believe that a good education, exposure to the west and the obvious ambition of many of the country's youth can eventually overcome the poor and corrupt work ethic of the older generations. The unexpectedly high turnout at the marketing session in Kiev may provide grist for this optimism.

NEWS FROM CAMPUS

French school lures Swiss professors

Theseus, the French business school owned by France Telecom and other commercial organisations, has officially announced the appointment of Ahmet Aykaç as director. Aykaç was formerly in charge of executive education at IMD in Lausanne, Switzerland.

Three other professors are in the process of leaving IMD to join Theseus in the south of France.

Theseus: France, 9294 5100.

Stars of the PC and the video screen

Which training video, out of thousands on the market, is appropriate for your staff?

The answer could be found in the "Critical Guide to Management Training Videos and Selected Multimedia 1996", just published by Harvard Business Reference.

The directory, which costs $49.95 (£32.60), categorises videos under headings such as "customer service" or "leadership" and reviews 160 of the best videos and multimedia packages, awarding each a star rating.

Harvard Business Reference: US, 617 495 6117.

Virginians become Canadian champions

The University of Virginia's McIntyre School of Commerce is this year's winner of the Harold Crookell International Case competition, held at the Western Business School, at the University of Western Ontario. McIntyre beat last year's winners Wharton and schools from the Philippines, Singapore and Austria.

Teams from each school are given the same case study and have three days to write a report and give a 20-minute presentation on what the company should do.

Western Business School: Canada, 519 661 3206.

Technology should be a benefit not a cost

Too much emphasis is placed on technology costs rather than information gain when assessing IT projects, warns the latest research from Warwick Business School.

And when computer systems are used to help re-engineer business processes the role of IT is often over-emphasised while human factors are overlooked.

Warwick: UK, (0)12003 524362.

Women open war of links

Tweedy old bags and available bimbos are both *de trop*, says **Keith Wheatley**

With the US Masters looming, it cannot be long before those hardy stories about the paucity of black members in élite Georgia golf clubs start to surface. The fact that nothing *changes may suggest* that in this instance the oppressed do not really care too much.

Meanwhile, perhaps golf should pay greater attention to a much larger minority with radical change on their minds. For golf, 1996 could be the year of angry women.

For example, Britain recently enjoyed a court case involving a female golfer who punched a chauvinist club member off his bar-stool. In the US, one leading professional on the women's tour has come out as angrily gay, after two decades *hiding in the shadows of the* clubhouse. Also in America, a probing book that reveals how cruelly many golf clubs discriminate against women is selling more copies than David Leadbetter's teaching manuals.

And in Scotland, a £500,000 grant of national lottery money persuaded a 200-year-old club to give equal rights to women. For decades, the 210,000 women who are members of Britain's golf clubs have had to put up with segregated bars, restricted tee-off times and even the celebrated "No Women, No Dogs" sign.

Worse still, perhaps, they have had to tolerate being divided in male golfers' minds into tweedy old bags or available bimbos. When blonde Philomena Vaughan, 42, manager of the pro shop at Dewstow golf club, Gwent, felled 6ft *John Price with a right hook to the* throat, it was a blow that echoed around the world of golf. Vaughan, three times club champion as well as a club employee, claimed to an industrial tribunal that Price had groped her thigh and that in the aftermath of the *fracas she had been unfairly dismissed* from her job.

"The whole thing would have been handled differently if I had been a man," she told the hearing – a phrase that summed up the whole issue. Quite simply, male golfers and their clubs are *going to have to stop treating* women as a separate and dangerous species if they want to hold their sporting world together.

Muffin Spencer-Devlin is dynamite. Her exploits on the women's professional tour are legendary. At Woburn a few years ago she was ejected from the pre-tournament dinner at the Abbey and suspended by the WPGA after turning up the worse for wear in a rented Nazi uniform and singing the *Horst Wessel* song to the unamused top table.

In the early 1970s Spencer-Devlin was removed from Manhattan's spiffy Wal*dorf-Astoria hotel in a strait-jacket after* causing a ruckus in the lobby. She has long been open about her manic depression, and a promising career has been blighted by spells in psychiatric hospitals. Now Muffin has told *Sports Illustrated* that she is a lesbian, has been one for 20 years, and that she feels many of her mental problems stemmed from the stress of concealing that fact.

"I think that keeping the secret may have contributed to my illness," said Spencer-Devlin, who takes about 70 pills a day to control her mood swings. *The sub-text here is that the issue of* lesbians in women's golf has always been one that frightened tour officials to death.

The problems of obtaining sponsorship from obvious prospects like cosmetics and clothing companies are often blamed on corporate fear of "the dyke image", while television companies blame the same factor for low ratings when women's golf is broadcast.

Small wonder that it took Spencer-Devlin half a lifetime (she is 42) to confront the golf establishment with a small personal fact. When she wanted to come out three years ago, her main worry was that endorsements would evaporate and leave her broke.

Penniless is hardly the description for many of the American women whose stories are told in Marcia Chambers' book, *The Unplayable Lie*. But they *are* victims of the gender/caste system that lies at the heart of the country clubs where most recreational golf is played in the US. The 19th century ground rules created them as places where people of wealth and breeding could mingle *and play sport. Crucially, the members* – or those that wear trousers – own the club.

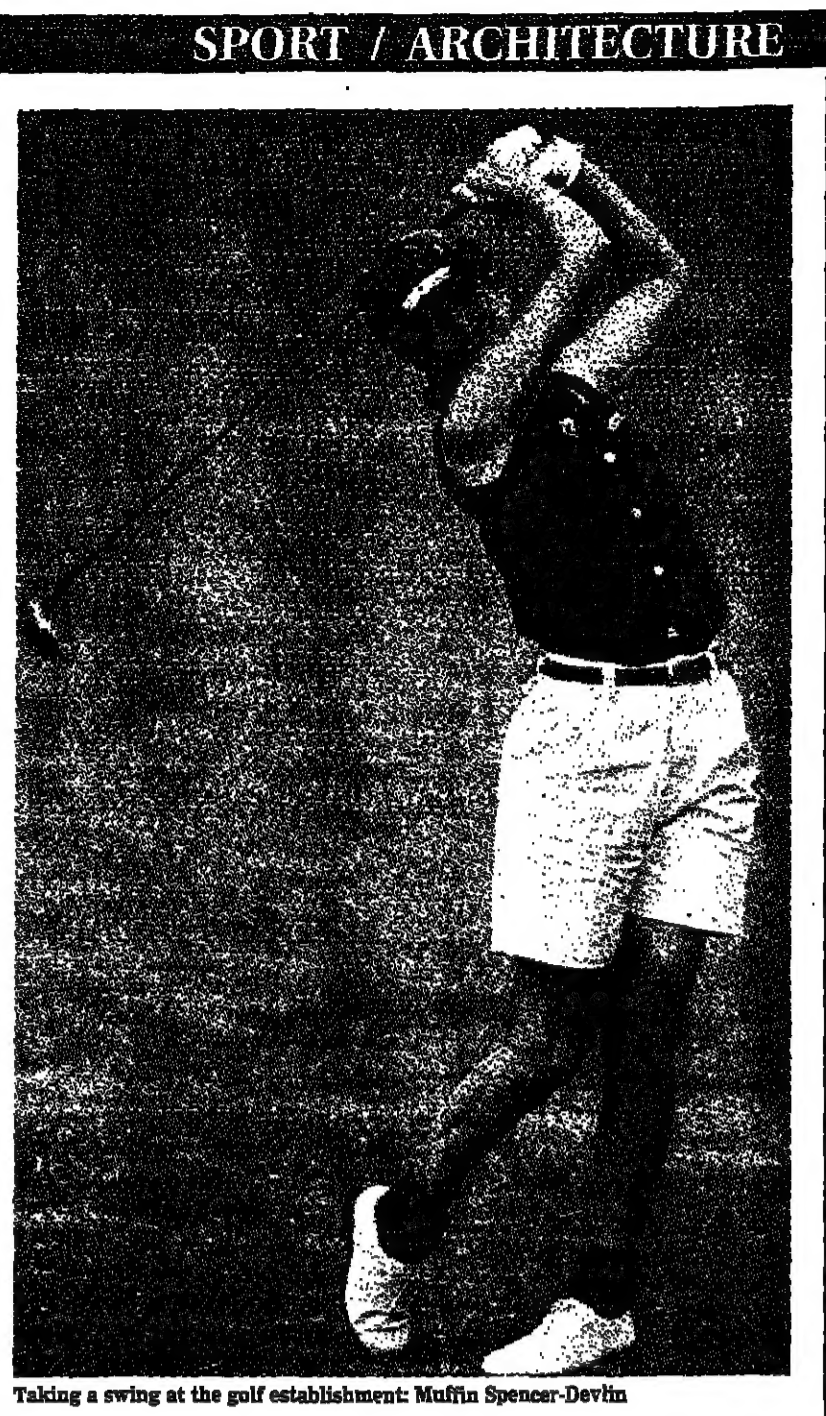
These patriarchal, Wasp rules have created the almost unbelievable stories that Chambers has uncovered. In Arizona, businesswoman Dorothy Moller, a keen golfer with a 15 handicap, had been a member with her first husband of Paradise Valley country club, which also has Supreme Court Justice Sandra Day O'Connor on its roll.

When she was widowed, Moller lost membership under club rules. It took her and her new husband five years and a five-figure entry fee to gain re-admission. When her second husband died, Paradise Valley refused to offer Moller membership under her own name. She was offered "widow's legacy" *status, which would be forfeit should* she marry again. In that case, Moller and her hypothetical new husband would have had to pay a third joining fee to the club. She is currently suing the club to be allowed single member status – which a widowed husband *would have been granted automatically* if *she* had died.

In Britain, forces are at work which are starting to change this sort of thing. It would be heartening to report that reforms spring from internal review, but in practice external pressures are the motivating force. Crail Golfing Society, 11 miles from St Andrews, in Fife, applied to the Scottish Sports Council for £442,000 in lottery hand-outs to build a second 18-hole course.

The money came – with 29 conditions. *One of* them was that women be admitted as full members for the first time in the 210-year history of the society. The vote to change was unanimous. "We are one of the most equality-minded clubs in this part of the world," said manager Jim Horsefield. "There's a *famous club not far from here where* there's a rule forbidding ladies to walk past the lounge window in case they block the view of the 18th green."

Take note, Philomena, Muffin, and Dorothy . . . there is still work to be done out there.



Taking a swing at the golf establishment: Muffin Spencer-Devlin

Millennium meets Greenwich meridian

Colin Amery praises the Neptune Court project

The spirit of British architecture is alive and well and living at Greenwich, downriver from central London. The national focus has *shifted to the* Thames to mark the arrival of the new millennium, and *to remind the British of their* maritime origins.

Garry Withers and his firm Imagination are creating – or, better, imagining – the UK's millennium exhibition along lines inspired by the concept of time. There will be 12 pavilions arranged like the hours of a clock.

There was a sharp intake of breath last year when Virginia Bottomley, UK national heritage secretary, and Michael Portillo, the defence secretary, guardians respectively of Britain's culture and defence, put the Royal Naval College into the hands of estate agents Knight Frank and Rutley to see if they could sell it.

Even the government now admits that that decision was a mistake. But the episode forced consideration of the fate of all those imminently empty defence buildings which happen to be the finest ensembles of English classical architecture in the land.

John Webb, Sir Christopher Wren, Sir John Vanbrugh –all added to the work of Inigo Jones and the landscape planner Le Notre to create something immortalised by J M W Turner and called the English Versailles. Yet Greenwich needs no comparison with that symbol of French autocracy. It is purely English in its dignity and in its glorious associations.

Much of Greenwich is already looked after by the National Maritime Museum. The national focus on the site was intensified by the announcement last Friday that the national heritage lottery fund is granting £11.8m *($18m) to the museum for the* development of its Neptune Court project.

That is an important grant, and the largest to any museum to date. It also seems an appropriate way to mark the national lottery itself, which was launched in late 1994 by fireworks on the Thames and has subsequently handed out sparkling grants *nationwide*.

The national heritage lottery fund, under chairman Lord Rothschild, has walked a tightrope since its large grant to enable retention of Sir Winston Churchill's papers. The furore surrounding that episode has died down, and now the fund supports urban *parks and has* bought a Seurat for the National Gallery, as well as the largest collection of Victorian concertinas (some 700) for the Horniman museum.

The fund has demonstrated by its huge grant to the National Maritime Museum that it is developing criteria of excellence which must be applied to every important cultural project with architectural consequences.

The initial application from the museum did not win the support of the lottery's heritage trustees. The first submission by the architects, Building Design Partnership, tackled the difficult brief, but only started to grapple with the aesthetic problems of creating a covered courtyard in place of the old Neptune Hall behind the wonderful triumphal arch marking the north wing.

The heritage advisers helped revise the design by working closely with the museum and adding a new architect to the Building Design Partnership, Rick Mather Architects. Mather is an American architect who has practised in the UK for years.

He is best known for his minimalist restaurants – the Zen chain – and is very much the favourite for museums, with work on the drawing board for the Wallace Collection, the Dulwich art gallery, *and now the National Mari*time Museum at Greenwich. His designs are limpid and cool, and almost entirely without historical reference.

Mather's plans for Greenwich work well: they insert important spaces into an historic fabric, integrating the design of the whole museum. And he has worked well with the curators of the maritime collections, mastering the intricate network of committees that now runs all our national museums.

The plans also bid goodbye to the old barge house and the Neptune Hall, and welcome to a smoothly designed central space which will clarify circulation and accommo*date the growing crowds of* museum visitors and shoppers. Mather does not try to compete with the rich Baroque architectural heritage around the museum. That is indeed the safest *approach*. Instead, he will reveal the three façades of the buildings surrounding the new courtyard and will create 11 new galleries.

Greenwich's architectural interest is enhanced by the *decision of the lottery's heri*tage fund to finance the improvements to the National Maritime Museum so generously. But the future of the Royal Naval College, with its painted hall and chapel, *remains uncertain. The most* likely candidate to take over the college buildings when the naval staff college leaves is the new University of Greenwich.

But surely a trust that involves *the museum should* be set up immediately to maintain the whole site, from the *Cutty Sark* to the Observatory. And the question of the divisive East West Road that disfigures the park cannot be avoided any longer. It should be placed under the river or underground, as recommended by Dame Jennifer Jenkins in her noble report. She is one of the quartet of the good and the wise reviewing the plans for the naval college buildings.

Lottery funds should flow *to this national focus of impe*rial, maritime and architectural history. The quality of the approved scheme for the museum is appropriately high, but it must be seen as only the beginning.

CONFERENCES & EXHIBITIONS

MARCH 28
Investor Relations - Building Relationships
A conference to tackle the many issues confronting IR practitioners as they build effective relationships with the investment community. Topics include: * Implications of a Labour Government, * Targeting Shareholders, and * Harnessing the Internet. Keynote address by Dominic Cadbury. Organised by The Investors Relations Society in association with UBS Limited
Contact Marta Seddon on
Tel 0171 405 4767 Fax 0171 405 4766
LONDON

APRIL 10 & 11
The Role of the Middle Office
This course is designed for individuals who are new to Trading or moving in into Derivatives Trading. Graduates, Middle Office & Trade Support Personnel, Treasury Dealers moving into Derivatives. The course includes: ● The Context of Risk ● The Independent Role; ● Front Office to Back Office Reconciliation; ● Monitoring Limits; ● The Position Report ● The Elements of P/L ● Value at Risk £520 + VAT 2 days
Contact: FTL/Nicola Blackman
Tel [illegible]
Fax [illegible]
LONDON

APRIL 10-12
Fixed Income Portfolio Management
For analysts, investment bankers, fund managers, corporate treasurers, regulators and consultants whose exposure to the financial markets necessitates a good grasp of bond portfolio management techniques and practices. ● Bonds - government, corporate floating rate, ● Risks inherent in the bond portfolio, ● Bond management strategies ● Bond futures and options
Contact: BPP Training and Consultancy - Jonathan Rogers
Tel: 0171 628 8444 Fax: 0171 628 7818
LONDON

APRIL 16-18
The Financial Markets
Understand the fundamentals of all the major financial markets in just three days. Covers spot FX, deposits, forwards, securities, equities, price determination, FRAs, futures, interest rate/currency swaps and options
Contact: AWCT
Tel: [illegible]
LONDON

APRIL 17
Mining in Argentina: Investment Opportunities
One day conference at Canning House, 2 Belgrave Square, London SW1X 8PJ. Speakers include: Argentine Secretary of Mining and representatives from the Argentine private sector, as well as speakers from UK and European companies active in Argentina. Reception at Argentine Embassy after conference.
Contact: Corporate Office
Tel: 0171 235 2303 Fax: 0171 235 3597
LONDON

APRIL 19
Computing & Telecommunications Convergence: The Management Imperative
An essential one-day conference for senior managers/executives responsible for information infrastructure. Presentations and case studies from senior managers, consultants and industry analysts.
Contact: Gareth Jones at Monadnock on tel. 0181 871 2546, fax 0181 871 3866
LONDON

APRIL 22 - JUNE 10
FT City Course
This course provides an excellent introduction to the workings of the City and explains why London is such an important financial and trading centre. 25 expert lecturers describe how the City operates, who the major players are, and how the main markets function.
Enquiries: FT Conferences
Tel: 0171 896 2626 Fax: 0171 896 2696
LONDON

APRIL 23 & 24
BPM 96 - Business Performance Measurement
Europe's leading annual conference and exhibition on the use of non-financial performance measures for driving business strategy. Covering the Balanced Business Scorecard, EFQM, Intellectual capital, customer-focused measures and lots more
Contact: Business Intelligence
Tel: 0181 543 6565 Fax: 0181 544 9020
LONDON

APRIL 24 - 25
Data Mining
Are you sitting on a gold mine? Organisations are amassing vast sums of data which, with the appropriate analytical tools, could reveal the co-ordinates for future success. British Telecom, GTE *Laboratories, Integral Solutions, SPSS*, Intelligent Applications, VEA and others illustrate the techniques and applications of Data Mining. A UNICOM business seminar For prompt service:
t. 01895 256484 f. 01895 813095
email. jelun@unicom.co.uk
LONDON

APRIL 24-25
Data Warehousing
How to add value to your business with the facility to access data held throughout the organisation and present it as compatible, comparative, meaningful information Andersen Consulting, Unisys, AT&T, British Telecom, IBM, ICL Chartered Trust, BP and others illustrate the implementation and utilisation of Data Warehousing. A *UNICOM* business seminar For prompt service.
t: 01895 256484, f: 01895 813095
email: johnj@unicom.co.uk.
LONDON

APRIL 29-30
The Colombian Economic Model: Institutions, Performance and Prospects
Details from Institute of Latin American Studies, 31 Tavistock Square, London WC1H 9HA
Tel:0171 387 5671 Fax: 0171 388 5024
E-mail: ilas@sas.ac.uk
LONDON

APRIL 30
Risk Management & Regulation
This conference on the management of risk features leading practitioners, regulators and professional advisors. Arthur Andersen, Bankers Trust Clifford Chance and CSFI sponsor a *programme that includes* Gay Evans, Douglas Harris, Charles Taylor and other authoritative speakers.
Contact: Cityforum Ltd
Tel: 01225 466744 Fax: 01225 442903
LONDON

MAY 7
Money Laundering - The Law, Responsibilities & Procedures
The Criminal Justice Act 1993 has placed new duties and responsibilities on individuals, banks and other financial institutions. How to recognise and deal with suspect transactions. ● Definition and Identification of Money Laundering; ● Regulations - Domestic and International; ● Role of the Supervisory Bodies; ● Responsibilities, 1 day, £295
Contact: Fairplace
Tel. 0171 623 9111 Fax: 0171 623 9112
LONDON

MAY 8
Doing Business in Contemporary Egypt
Don't miss conference covering - Investment Incentive, Capital Markets, Oil, Pharmaceuticals, Civil Engineering, Commercial Disputes, Politics, Macroeconomy. Senior speakers from General Authority for Investment, Hermes Financial, EGPC, Glaxo-Wellcome, Frere Cholmeley, Bonnie Black & Veatch, Egypt Focus, IISS. Major discount for booking before 1/4/96. Contact: Menas Associates, Tel. 0181 520 9967, Fax. 0181 520 1668, E-Mail. 100607.3371@compuserve.com
LONDON

MAY 13-17
Introduction to Corporate Credit Analysis
The Foundation course in credit analysis, risk assessment and the canons of lending. ● *Types of Borrower and their Needs*; ● Techniques of Credit Analysis; ● Profit and Loss Account and the Balance Sheet, Cashflow, forecasts, Sensitivity Analysis, ● Spreading, Ratios, Key Indicators; ● Business Plans, Debt Service Capacity, Covenants. 5 days, £975
Contact: Fairplace
Tel: 0171 623 9111 Fax: 0171 623 9112
LONDON

MAY 16-17
An Introduction to Islamic Finance and Economics
NOT yet another conference, but an intensive training course. Understand the key issues, including the underlying religious and economic philosophies, a step by step guide to contract types and financing tools, compatibility with conventional financing and current issues.
Contact: AWCT
Tel: 01923 825663
LONDON

MAY 21 & 22
Building Profitable Customer Relationships
Conference designed to highlight, address and analyse practical strategies for measuring and managing customer-driven initiatives, using best practice case studies, working groups and masterclass.
Contact: Business Intelligence
Tel: 0181-543 6565 Fax: 0181-544 9020
LONDON

MAY 22
DTI Conference
Aerospace Technology Transfer-Past Track Record and Current Potential.
Two major DTI sponsored studies will be discussed together with sessions on North Sea and Automotive Applications. There will be workshops on Electronics, Materials, Turbo Machinery and Simulation/Modelling Techniques.
Contact: Conference Office, RAeS.
Tel: 0171 499 3515 Fax: 0171 493 1438
LONDON

JUNE 3-4
Acquiring, Retaining & Developing Profitable Customers in Financial Services
Financial services companies are finding it increasingly difficult to develop their processes, technology and functions in line with the current and future needs of their customers. This conference has been designed to present the best practice for developing and retaining profitable *customers by bringing together senior* executives from European financial services companies and leading experts in the field.
Contact: Business Intelligence
Tel: 0181 543 6565 Fax: 0181 544 9020
SENSS SURREY

JUNE 10-14
FIA/FOA International Derivatives Week Annual Derivatives Conference and Exhibition
Futures and options industry participants exchange views on the latest international business, regulation and compliance, technology and clearing/settlement issues. The exhibition will showcase emerging markets.
Contact. Futures Industry Association
Tel: 001 202 466 5460
Futures and Options Association
Tel: 44 0171 265 2154/2137
LONDON

JUNE 19 & 20
Major International Forum European Monetary Union: The Consequences for Business, Banking and Financial Markets
The Association for the Monetary Union of Europe Annual Conference. Including senior speakers: A Lamfalussy, President, European Monetary Institute*; H Davies, Deputy Governor, Bank of England*; A Turner, Director General, CBI*; Plus high level speakers from: Deutsche Bank*; Barclays Bank*; MATIF*; Société Générale de Belgique*; Fiat SpA*; Rhône Poulenc*; Philips *Electronics*; European Commission**.
Contact: Claire Harnett, IBC
Tel: 0171 637 4383 Fax: 0171 323 4298
LONDON

AUGUST 29 & 30
FT World Aerospace and Air Transport - Competitive Strategies for the New Century
This year's conference will take as its theme the need to develop competitive strategies in the face of radical changes with the potential to transform the industry; liberalisation in Europe, the creation of manufacturing giants; and the gradual erosion of government support and finance for the industry.
Enquiries: FT Conferences
Tel: 0171 896 2626 Fax: 0171 896 2696
LONDON

INTERNATIONAL

APRIL 22-23
The European Air Transport Conference
Organised in association with The European Commission and now in its third year, the conference will deal with: PROGRESS TO DATE - Implementation of Third Package. Slots, ATC and de Croo Report. AFFILIATIONS - Opportunities. Strategy. Partnership. Investment. New Entrants and MIDT. LEGISLATION - Slots. Airports. ATC. Environment. Passenger Rights and Schengen. Programme and registration details from Clive Rigden:
Tel: 0181 893 3795 Fax: 0181 893 3796
BRUSSELS

MAY 2 & 3
The Development of the Financial System Under Conditions of *Transition: The Case of Croatia*
Discuss with top Croatian and international experts the theoretical and practical issues of developing a modern financial system in a Central European country. Savings, Risks, Prices. The Role of the Users of the Financial System in Countries in Transition. Role and Importance of Financial Institutions. Regulation and Supervision of Financial Markets.
Conference fee: GBP 250
Tel: +385 1 45 54 522 Fax: +385 1 44 40 59
Institute for International Relations, **ZAGREB**

MAY 6-8
Improving R&D Cooperation
International Seminar on improving R&D cooperation among universities, research institutes and industry in developing countries, sponsored by GTDC, the Global Technology Development Center and organized in cooperation with Tsinghua University, Beijing. Speakers from 3 industrialized and 7 developing countries will present papers on current national R&D structures, future strategies, management, operation, financing etc.
Contact: GTDC Global Technology Development Center, Austria.
Tel: +43 1 512 85 88 Fax: +43 1 512 85 89
E-mail 100450.461@compuserve.com
Tsinghua University, Beijing, **CHINA**

MAY 14-17
5th Annual Conference on International Securities Lending
Co-sponsored by *ISLA (UK)* and *RMA* (USA) this is the US/European Securities Lending Conference to attend. Issues that influence lending markets worldwide will be discussed: trading, technology, industry consolidation, regulatory requirements, and updates from various lending associations. Keynote address by Michael R. Bloomberg, President and Founder, Bloomberg Financial Markets.
Contact: Robert Morris Associates
Tel: 800-677-7621 Fax: 215-851-9205
Hotel Bayerischer Hof, MUNICH

MAY 20/21
Financing Local Government Conference - A focus on Infrastructure Finance
Supported by MBIA/AMBAC INTERNATIONAL
"A landmark event in the development of local financing in Europe" Paul Volcker, former Head US Federal Reserve.
The conference covers issues such as implementing local project finance, international vs. domestic debt, and what Maastricht means for financing techniques. Essential for government bodies and their financiers.
Contact: Lisa O'Regan IFR Publishing
Tel: +44 171 369 7593
MADRID

MAY 30-31
***The Knowledge Challenge* Conference**
Learn how to capture, create and capitalise on knowledge for enhanced profit, productivity and performance. Featuring leading international company examples and the authors of *The Knowledge Creating Company*.
Contact: Eve Hartigan, Management Centre Europe, Brussels Tel +32.2.543 21 00, Fax +32.2.543 54 00
Internet Address: info@mce.be.
BRUSSELS

JUNE 10-12
Sub-Saharan Oil & Minerals
The biggest annual gathering of Africa's energy & mining decision-makers, including Ministers (& delegations) from over 35 countries. An essential business forum for anyone involved in the African oil & mining industries.
Contact: Europe Energy Environment
Tel: 44-171-600 6660 Fax: 44-171 600 4044
JOHANNESBURG

JUNE 24 & 25
Best Practice for International Computer System Procurement
An in-depth examination of the vital, technical, commercial, cultural and legal considerations when sourcing computer systems internationally. Two day conference featuring the results of two years research conducted by the Society of Information Management, USA. For a detailed programme call:
Linda McKay, IBC
Tel: +44(0) 171 637 4383
BRUSSELS

JUNE 24 & 25
FT World Gold Conference
Authoritative speakers from Europe, the USA, South Africa and the Asia-Pacific region will share their views on the latest developments in the gold market. Central bank activity, supply and demand, and derivatives are among the subject to be addressed.
Enquiries: FT Conferences
Tel: 0171 896 2626 Fax: 0171 896 2696
VENICE

MEDIA FUTURES

Superhighway to heaven

Believers are using the Net to fish for souls and funds, writes **Martin Mulligan**

Icons are back in fashion, strewn across computer screens all over the world. Click on the right one and a gateway opens to any of the great religions. There are Internet home pages for Catholics, Taoists, tree worshippers, Moslems, Mormons, Sufis – even existentialists.

The religious-minded see this convergence of secular pixilated desktop icons and their hand-painted sacred namesakes as powerfully symbolic. To others, it looks like cyber-Babel. God knows what is taking shape in cyberspace. But does anyone else?

The Vatican opened its Web site last Christmas Day, registering 300,000 hits from 70 countries within 48 hours. At present the page carries a Lenten message to the faithful from Pope John Paul II. Doubtless something big is planned for Easter.

The Vatican takes the Internet seriously enough to insist on having a domain to itself, reflecting in cyberspace its status on earth as a separate state within Italy (*http://www.vatican.va*) Hans Peter Röthlin of the Pontifical Council for Social Communications in Rome confirms that although the Vatican has its own site, it does not yet have its own server, so service is slow. But a dedicated server is on its way.

Global proselytising via the Net is inexpensive. The Vatican owns a bank and could make a cash call on nearly 1bn believers if it wanted to, but it has no edge in cyberspace over a tiny Zen sect or a group of Sufi Moslems with design flair.

Clive Parish, Webmaster and electronic publisher for the global telecommunications company Imarsat, confirms that the costs are the same whether a Web site promotes a global religion or a garden centre.

"You simply need to hire space [from a service provider]," Parish says. "Five or 10 megabytes would be plenty for a small Web site, so say somewhere between £250 ($382) and £500 per year. Then all you need is to find a graphic designer. Writing it is the easy part." Key requirements are ingenuity, design skill, patience and enthusiasm, rather than deep pockets. *Teach Yourself html* (the technical language in which pages must be written) is among the top 25 most-visited sites on the Net.

Dr Jim McDonnell, director of the Catholic Communications Centre in London, looks after the Vatican's UK operation. "We see the Web as a place people go to look for information, using it as a global encyclopaedia, so religious institutions should be there," he says. "And the page also acts as a directory of contacts, making the Vatican more accessible. Users are more likely to browse these pages than to visit a reference library to consult papal encyclicals."

Has the Net redrawn ancient battle lines between religions? Kevin Thomas, deputy director of the London-based Catholic Media Office, thinks not. He rejects any proselytising role for Catholic Net pages. "This is not an overtly evangelical exercise. It is an information resource. . . Catholicism teaches the necessary use of mass communications to give information about itself. It's getting close to what we would call pre-evangelisation. From a Catholic point of view, evangelisation is primarily an activity of God . . . The notion of converting people to the gospel via the mass media is much stronger amongst the evangelising Protestant community than among Catholics."

A glimpse at World Anglicans Online seems to confirm that. "Think Anglican worship is stodgy, stiff, and 'smells and bells'? Well, think again. The Anglican church is often referred to as the Church of England . . . but the Anglican communion has a very strong presence throughout the world, especially in African countries. There are fewer Anglican resources online outside of north America, which likely reflects the smaller Internet presence in those countries," declares their home page. The Rev Don Tordoff, northern diocesan computer contact, identifies another good reason for an Anglican Net presence: the enemy is there in strength already. He points out that "there is information about the occult [on the Net] which the churches stand against."

As for the Mormons, they were into new technology before it was fashionable. The larger Mormon chapels in the UK all have satellite dishes. Their prototype home page – just a masthead and a statement – registered more than 10,000 hits between February 8 and March 5 this year, but the Salt Lake City elders are "looking to understand the Net" before going any further.

"If and when we have a Net presence," insists Stuart Reid, Web site project manager for the Mormons in Salt Lake City, "it will be done in a quality way." Bryan Grant, the Mormons' UK director of public affairs, goes further. The page will have a clear evangelising role, he says. "Much of our evangelising has been door to door. Increasingly, there are no-go areas in British society, with people so worried about security they are afraid to answer their doors, so we are looking at other ways of disseminating the message. People will have to knock on our door on the Net, not the other way round".

Islam, similarly, has no misgivings about using the Net as a proselytising tool. Ahmed El-Gabalawy of the Islamic Center of South California says: "The objective is to keep in touch with Moslems and non-Moslems", allowing browsers "to find out what Islam is all about". Their page, with its image of the earth as a domed minaret, has had 7,000 visitors so far, averaging five hits a day.

Proselytising is all well and good, but is there money in it? John Daley, treasurer of the International Zen Association (UK) in Bristol, says he wants publicity for Zen Buddhism's meditative lifestyle and funding – in that order. The association's page was created by two disciples with the Bristol temple's permission. But the association has yet to see a bean. "No one has come forward with any money yet", Daley says wistfully.

Judaism is proving more successful commercially. Larry Yudelson, Web pages editor of the Jewish Communication Network in New York, says: "We are moving towards advertising and even shopping applications [on our pages]". Their pages record between 100,000 and 200,000 hits each month and aim to catch the eye of two different groups: the devout seeking day-to-day information, and people who only think about being Jewish at Passover. Yudelson says: "The Net and religion go well together because people are embarrassed by religion. [The Net] is a way for people to learn without embarrassment."

Does cyberspace offer other practical benefits for religions, large or small? Terry Lesser, operations manager at the seven-year-old Zen hospice project in San Francisco, can point to a few. Volunteers run two small hospices promoting a Buddhist approach to death and dying.

"People all over the world are inspired spiritually by what we are doing," Lesser says. At least one applicant volunteer learned of the hospice via the home page. But there is an unexpected drawback. The page has generated so many international requests for information that the 75 volunteers are swamped. "For instance, I have on my desk an e-mail request for advice from a prototype hospice in Moscow for people with Aids. We can't reply to everyone. The possibilities are bigger than anyone had thought", Lesser says.

Is there anything sinister – or at any rate less upbeat – about cyberBabel? The atheist, zoologist and writer Richard Dawkins, author, among other works, of *God's Utility Function*, has popularised a word for the mechanism by which ideas – he believes – colonise minds just as viruses colonise bodies.

As genes multiply in nature, Dawkins maintains, so memes multiply culturally, particularly in an advanced electronic culture. Dawkins describes the history of the idea of God as the pathology of an invasive meme passed down through the generations of a particular culture. Believers retort that God describing the history of the idea of Richard Dawkins would be of greater interest. But Dawkins could be on to something.

Significantly, Dawkins' essay *Viruses of the Mind* is itself available on the Net, as a search using "meme" quickly establishes. Dawkins is a triumphalist Darwinist, and his followers are alert to ways of propagating their own doctrines.

Few reasonable souls doubt any longer that the Net has ushered in a fresh communicative epoch. But similarly no reasonable soul could have foreseen such intellectual viral warfare breaking out on a scale unprecedented in the history of mass communication. The Net has effectively become a meme factory; a laboratory of good and bad infections. For better or worse, it seems, the future is in our memes.

Tim Jackson

When a freebie turns into a dead giveaway

What if the world's most powerful Web server were also the easiest?, asks a recent Microsoft advertisement in the US technology press. *What if you could install it in under five minutes? What if it were free?* Microsoft's decision to give away its Internet Information Server (IIS) is recognition by a profit-seeking company of the way the Internet has changed the economics of doing business.

Giveaways are not new. Freesheet newspapers are familiar all over the industrial world. In Toledo, free tissues carrying advertisements on the packaging are handed in bundles to subway users by students.

But the Internet has taken things to a different scale. The commodity being given away most often is information, the value of which can be separated from its physical manifestation; and the medium of a network of linked computer systems offers the closest thing to zero marginal distribution cost the world has seen.

Basic freesheets, supported by advertising, can work spectacularly well on the Internet. Obvious examples include the electronic versions of The Daily Telegraph and other newspapers, and the Pointcast News network described in a recent column.

But news is not the only information that can be given away and used as an advertising vehicle. Yahoo, the Internet's leading search engine, also carries advertising. The common factor among all such ventures is that Internet word-of-mouth can, in a matter of only months, produce a far bigger business than the average local paper.

The innovation of the Internet is that it can be used to harness the power of network economics – where the value to a consumer of a product depends not only on the product itself but on how many other people use it.

Traditionally, companies in network businesses have toiled for years to get over this chicken-and-egg problem. The telegraph, telephone and fax machine are all examples of technologies whose acceptance depended on getting individuals to see that other individuals were using them. Radio, television and VCR rentals are all cases where the trick was persuading companies to provide services, and individuals to use them.

Nobody could give away tens of thousands of TVs or VCRs. But a two-person Internet company in rented space can easily give away millions of copies of a computer program and, at a stroke, build a network that increases the value of its product to individuals and companies.

That is the rationale for Internet giveaway. But it leaves unanswered questions.

One is how to convert freebie users into paying customers. This is the strategic issue facing Netscape Communications, maker of the Navigator browser. After achieving market dominance by spraying the world with millions of copies of Navigator, it is putting subtle pressure on users to pay up. Only beta, or test versions, are still free, so non-payers suffer occasional problems and crashes.

Even these versions self-destruct by a specified date, so the user has to download a new program, with new flaws, every few months. The theory is that, after four or five experiences of this, customers will opt to pay $50 (£32) for a quiet life. If 40 per cent of the 100m people who may be on the Web by the end of 1997 do so, Netscape will net a cool $2bn.

But this approach is uncertain. A year ago, it seemed possible Netscape might establish a proprietary technology to squeeze out competing browsers. Today, everyone inside the company professes to believe that Internet standards should be open to everyone. This raises the danger that, just as Navigator users appear ripe for switching to commercial versions of the software, someone else – the big M in Seattle – can come and offer a different, though compatible, freebie.

The second question left unanswered is: what if the strategy is to give away the client software used by individuals indefinitely and to make money from the server software sold to companies?

Some months ago this, too, looked like a winning approach. Buoyed by the impressive worldwide network of clients, Netscape's server packages were selling at handsome margins. Microsoft's decision to give away its Internet Information Server, a competitor to money-spinning Netscape products, now casts the strategy into doubt.

To be sure, not everything is free, and there is room for dispute as to what large companies actually need to pay for a fully-installed Web server system.

Jim Barksdale, Netscape's chief executive, put the matter gently at a recent conference: "There is some question that, if you spend $1.5bn in R&D and give it away, that somehow may be underpricing." Yet Netscape's discomfort is palpable.

And the moral of the story? My guess is that the giveaway policy is a feature of a market in explosive growth, which will soon become far less common. Ultimately, it faces the same problem as pyramid selling: a shortage of final end-users who will pay the full price without special incentives. It may eventually be seen as a kind of anti-competitive dumping.

In the meantime, however, the bread and circuses for Internet users continue, and we can download free packages from Microsoft, Netscape and dozens of other companies to our heart's content.

http://www.pobox.com/tim.jackson

Telecoms giants have misread impact of Net, says study

By Alan Cane

Some of the world's largest telecommunications operators – AT&T, MCI, BT – have during past weeks announced Net services at prices which suggest they are determined to wrest control of access from existing service providers.

A new study, however, suggests that they have misread the potential impact of the Net. It is much more than a new on-line service, the study says, it is a model in miniature of the communications industry of the 21st century.

That sheds light on some old arguments. Operators will have to break their network and services businesses into separate companies to compete effectively in this new marketplace, it suggests.

The operators' move into Net access represents a swift and significant change of position. Their stance to date has been to accept the Net will represent a threat to their business at some point far in the future. In particular, they have discounted the threat to their revenues from Net telephony – long distance and international calls for the price of a local call.

Their argument has been that voice telephony over the Net is like Citizens' Band radio – inadequate for customers used to high reliability and quality. Recently, however, software which makes Net telephony possible has been improved to the point where it constitutes a real threat to the operators' revenues.

At present, the Net's share of total telecoms traffic is tiny. In December 1994, Net traffic was the equivalent of 17m minutes of voice traffic: the European Union business market generates about 1.2bn minutes of voice traffic a day..

So should the operators be worrying? Yes, according to Analysys, the Cambridge-based telecoms consultancy, but not because of the threat to long distance revenues: "Most telecoms operators" it says "should not be overly worried by Internet telephony and similar Internet-based bypass applications."

"With the gradual disappearance of the current price distortions in the telecoms services sector (high long-distance tariffs which cross-subsidise local service and the use of variable charges to cover fixed costs) bypass will become . . . progressively less attractive."

The cost of long distance calls is set to fall sharply as accounting rate arrangements through which operators agree how much to pay each other for carrying each others' calls progressively fall victim to increased competition.

The belief that the Net threatens operators because of its voice capability stems from assumptions that they will be able to carry on their business in much the same way as they have for the past 50 years. Previous innovations such as digital switching and mobile telephony, for example, were logical developments of existing services and operations, readily assimilated and exploited by existing players.

Analysys, however, says the Net is a disruptive technology which will completely reshape the market forcing the convergence between telecoms, information technology, publishing and broadcasting.

Telecoms operators are aware that their revenues and profitability are under attack from market liberalisation bringing both increased competition and price regulation.

They are being forced to seek new revenue streams from advanced, high-value, high-bandwidth services – BT's experiment in East Anglia with a whole range of services from home videos to home banking is an example.

But, Analysys, argues the Net already provides personal computer users with entry to "a burgeoning market for every type of service, from on-line wine sales to samples of movies and music, pornography and the Vatican library."

The Net has weaknesses – it is unreliable, congested, lacking either standards or security – but it has "usurped elegantly engineered plans for expensive networks put forward by the telecoms operators to become the focus of development and innovation for advanced services".

Beyond the Internet: restructuring the communications market. Analysys Publications, St Giles Court, 24 Castle Street, Cambridge UK.

BUSINESS TRAVEL

Travel News · Roger Bray

Catamaran link delay

Business travellers hoping to try Stena Line's revolutionary catamaran service between Holyhead in Wales and Dun Laoghaire, about 20 minutes' drive from Dublin, will have to be patient. The introduction of a giant Finnish-built catamaran, carrying up to 1,500 passengers and 375 cars, has been delayed while experts test its raft system, and by the collapse of a company supplying computerised navigation charts.

The craft will make the crossing in 99 minutes, compared with 110 minutes by the smaller catamaran now on the route and 3½ hours by conventional ferry. It is now hoped the service will start early next month.

Flights uncertainty

Air India has been thrown into disarray with a strike by its engineers, forcing the cancellation of many flights from Delhi and Bombay to places such as Frankfurt, Paris, London and New York. Last week it emerged that the airline had dropped a number of services to India, the US and Canada from London Heathrow until the end of April. But the airline stresses that things are extremely fluid – services may be reinstated and passengers should make regular inquiries.

Guatemala alert

Guatemala has been hit by a wave of kidnappings, and crime, particularly car theft, is rife. The average number of kidnappings had risen to four a day earlier this month, according to US-based group Pinkerton Risk Assessment Services. While visitors appear to have been untouched, kidnapping victims have included two resident Americans, who were both released unharmed.

Cyberspace bookings

Eight of the world's biggest hotel chains have set up an Internet Web site allowing travellers to book rooms straight from their personal computers. Called Travel Web (http://www.travelweb.com), it provides access to more than 6,000 hotels with 1.7m rooms around the world. Plans are afoot to widen the information available to cover airlines, hire cars and other business travel needs.

Eurostar gap plugged

Eurostar, the Channel tunnel rail operator, launches an extra train between London's Waterloo and Brussels today. Departing at 2.47pm, it fills a yawning five-hour afternoon gap in the service and also allows a civilised arrival at 6.38pm in the Belgian capital. Previously, the options were to take a 12.27pm train, which blew an even bigger hole in the working day, or leave at 5.19pm, which made it impossible to check into a hotel much before 10pm.

Quick fingers

The Noga Hilton in Cannes has introduced a mini-bar in rooms which charges you for any item you remove for more than 10 seconds. That doesn't give you long to read the wine label.

Is this a trend? Hilton International says none of its other hotels have followed suit. It is a way of keeping an electronic inventory, says the chain, and adds that if guests put back drinks or snacks unopened, they will not be charged.

Evidence suggests there is little need to crack down on forgetful or light-fingered customers. Gone are the days when guests cleared the shelves in a haze of late-night cigarette smoke. Inter-Continental recalls its surprise when, as an incentive, it offered travellers a free run of the mini-bars in its German hotels. On average, they consumed only one beer and one bottle of mineral water.

Likely weather in the leading business centres

	Mon	Tue	Wed	Thur	Fri
Tokyo	17	15	15	17	20
Hong Kong	23	21	24	25	24
London	12	9	10	11	12
Frankfurt	15	11	8	9	10
New York	16	9	7	4	[illegible]
L. Angeles	19	21	21	18	17
Milan	18	19	18	16	[illegible]
Paris	16	11	10	12	13
Zurich	15	14	10	9	11

Maximum temperatures in Celsius

Information supplied by Meteo Consult of the Netherlands

In-flight food fares better

Airlines are facing up to the challenge of creating distinctive meals, says Kate Bevan

Airline food used to be pretty much the same on any airline: often unappetising, occasionally inedible. But with the mass revamping of premium-class services being carried out by every airline worth its salt, food is at last receiving some attention.

Even so, delivering higher-quality fare to passengers remains a problem. Food has to be assembled, cooked and chilled on the ground before being loaded on to meal trolleys for each aircraft, usually by contract caterers handling many flights from several airlines.

For example, Cara, Air Canada's caterer in Toronto, prepares food for 20 other airlines, handling 22,100 meals a day for all classes, from economy flights for US airlines to Executive First, Air Canada's hybrid first/business class, and BA's Club World and First classes – very different services, requiring different types of food.

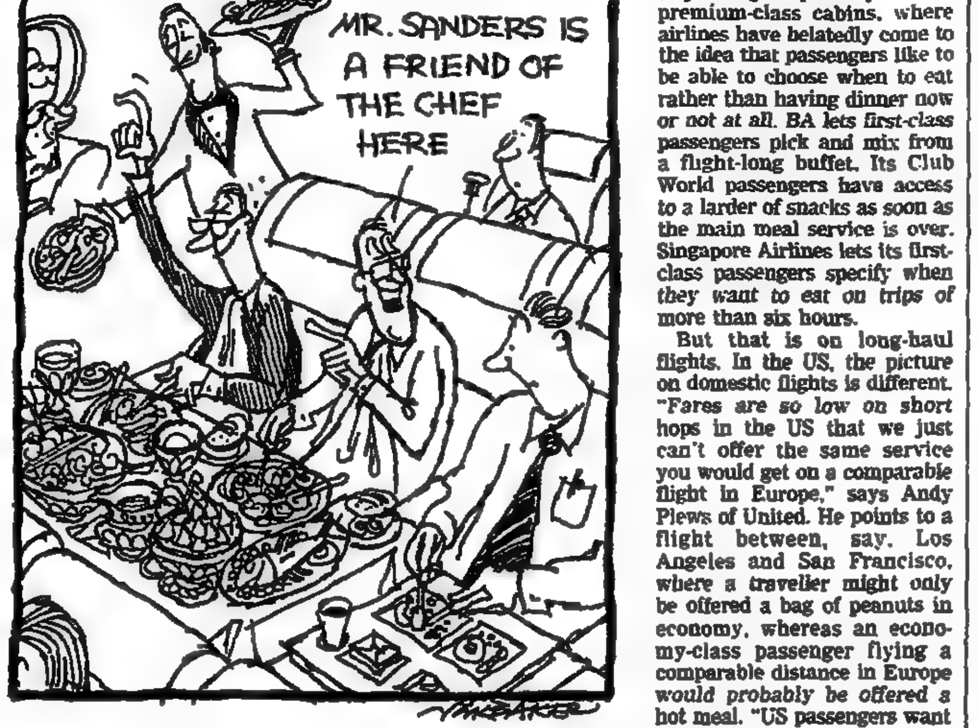
Part of the answer is to be aware of the limitations of the cook-chill process and avoid foods that do not stand up to it well. An example is chips, says United Airlines, the US carrier. "They don't translate to the aircraft very well," it says. And eggs are difficult to cook, chill and then reheat, as anyone who has opted for a breakfast omelette on just about any airline will testify.

Another way to achieve higher quality, say the airlines, is to give the cabin crews more control over the final product. For Air Canada, this means asking crews to put final presentation touches to dishes. British Airways also allows crews leeway to finalise presentation of food. "They don't have to follow a set picture any more and put the potatoes exactly 3cm to the left of the beef," says BA. "They're more involved with the product." It adds that cabin staff are encouraged to try cooking the recipes at home.

Creating distinctive food is a challenge for airlines, which are bound not only by the limitations of space and cooking facilities, but also by hygiene regulations. Not reheating food at a high enough temperature and for long enough would be a disaster on a long flight.

It is easy for carriers with a specialised national cuisine, such as Thai, to stand out from the crowd, but for the airlines of countries with less well-defined culinary identities, things are more difficult.

Virgin Atlantic, Richard Branson's airline, works with celebrity chef Raymond Blanc on dishes for Upper Class passengers on flights from London. BA is working with Food From Britain, a lobby group, on recipes using traditional ingredients such as black pudding and Cumberland sausages. Robert Volstuben, Air Canada's executive chef, says the carrier uses Canadian ingredients where possible, such as smoked salmon, and also offers Canadian wine.



United is concentrating on branded products such as McDonald's meals for children in economy and offers coffee from Starbucks, the US chain.

Airlines are also increasingly aware of the demands of passengers on different routes. Thus a western carrier flying a route from Europe or North America to Japan offers a Japanese choice, while an Asian airline provides western dishes alongside those of its own national cuisine.

The quality of service is also improving, especially in the premium-class cabins, where airlines have belatedly come to the idea that passengers like to be able to choose when to eat rather than having dinner now or not at all. BA lets first-class passengers pick and mix from a flight-long buffet. Its Club World passengers have access to a larder of snacks as soon as the main meal service is over. Singapore Airlines lets its first-class passengers specify when they want to eat on trips of more than six hours.

But that is on long-haul flights. In the US, the picture on domestic flights is different. "Fares are so low on short hops in the US that we just can't offer the same service you would get on a comparable flight in Europe," says Andy Plews of United. He points to a flight between, say, Los Angeles and San Francisco, where a traveller might only be offered a bag of peanuts in economy, whereas an economy-class passenger flying a comparable distance in Europe would probably be offered a hot meal. "US passengers want low fares," he says.

Airlines are adamant that in-flight food is no longer something to be ashamed of. Indeed, American Airlines recently produced a recipe book for a press event – only to be swamped with requests for it when news leaked out.

SMART GUIDE

Office in the sun

Victoria Griffith on the inside track in the art deco city of Miami

Better known as a haven for sunseekers, business travellers to Miami with less time should bear in mind that the metropolitan area is spread out, meaning it can take an hour or more to cross the city.

Although many rent a car, taxis may be best for those afraid of getting lost – a serious concern in a town infamous for attacks on motorists. Taxis in Miami are expensive and have to be called for rather than hailed on the street, but drivers usually know where they are going.

● Where should I stay?

The art deco South Beach district offers the most fun. Not long ago the neighbourhood had numerous crack houses. Now Ocean Drive, which edges a white sand beach, is packed with upscale restaurants, shops and sidewalk cafés. It is close to downtown and a 45-minute drive from the airport.

The Delano, the most elegant hotel in Miami Beach, opened to much fanfare last year. Architect Philippe Starck was in charge of the renovation of the old art deco building. Room rates are from $200 (£130) to $550 per night in high season. The Raleigh, another art deco jewel, is also popular, with peak-season rates starting at $180.

The pink-marbled Grand Bay in Coconut Grove recently lost its status as the only five-star hotel in Miami, but is still popular with business travellers. Room rates start at $295 in high season. If you are doing business in Coral Gables you may want to consider the Biltmore, which looks like an overdone wedding cake. If you want to be in the middle of downtown, your best bet is the Inter-Continental.

● How about restaurants?

The Forge restaurant in Miami Beach has continental cuisine and a cigar-smoking room. Pacific Time in South Beach serves Pacific Rim food: heavy on fish, with Asian accents. Most visitors like to try Cuban fare at least once when in Miami, and Yuca, famous for unusual presentations, is the most sophisticated of the Cuban restaurants.

The original Yuca is in Coral Gables, but the owners have just opened a branch in South Beach as well. Larios, a Cuban restaurant on Ocean Drive, is more down to earth, although the noise level, from live music and other diners, can be deafening. The restaurants in the Raleigh and Delano are also excellent.

● How about the nightlife?

Because of its Latin character, Miami throbs into the small hours. A lively spot at South Beach is the nightclub Café Atlantico, while the Marlin hotel nearby has live bands and a wide variety of music from rock to Cuban jazz. For standard nightclub fare, Amnesia may be the hottest spot in town. If you want to taste the nightlife without hitting the dance floor, you could always bar-hop along the sidewalk venues of Ocean Drive.

● What about higher-brow pastimes?

Miami is not known for high culture, but neither is it utterly philistine. The neo-classical Miami City Ballet has come a long way since Edward Villela took over as director nine years ago, and is considered one of the best ballet companies in the US. It is faithful to Balanchine, and performs both modern and classical pieces.

Miami has no notable art museum, but is becoming known as a centre for Latin art exhibitions in private galleries. The gallery owners in Coral Gables sponsor an "artwalk" on the first Friday of each month. Just show up at a Coral Gables art gallery – most of them participate – between 7pm and 10pm. You'll get refreshments and transportation between venues.

● Suppose I have a spare day?

Take a trip to the Everglades, the world-class waterland so near Miami that city sprawl is starting to eat into it. The alligators are a must-see, though the mosquitoes are outstandingly vicious. Key Largo is good for diving and is a 1½-hour drive from Miami.

OPENINGS

SALZBURG
The centrepoint of the Easter festival, beginning on Saturday, is Verdi's "Otello" with Placido Domingo (right) in the title role and Ruggero Raimondi as Iago. Claudio Abbado conducts a staging by the Italian film director Ermanno Olmi. In neighbouring Switzerland, the Lucerne Easter festival runs from Wednesday till Sunday, with concerts conducted by Nikolaus Harnoncourt, Sigiswald Kuijken and Christoph von Dohnányi.

GLASGOW
Glasgow's new £7m Gallery of Modern Art occupies the refurbished Royal Exchange, one of the city's most impressive buildings. With four floors of display space, it houses the city's collection of postwar art and design. The gallery opens on Friday, and will be formally inaugurated by Queen Elizabeth in July.

MADRID
The Prado is marking the 250th anniversary of the birth of Goya with a retrospective featuring more than 140 works. Opening on Saturday, it will be supplemented by a show of prints at the Biblioteca Nacional and lithographs at the Calcografia Nacional.

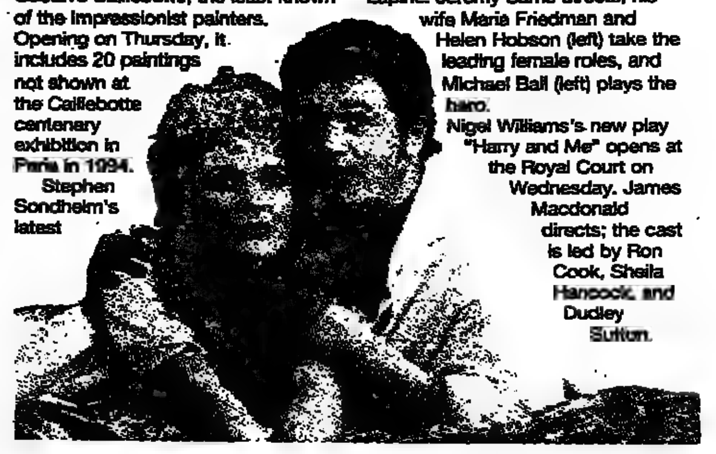
AMSTERDAM
Two pillars of German Romantic art, Philipp Otto Runge and Caspar David Friedrich (above), are the focus of an exhibition opening at the Van Gogh Museum on Friday. The underlying theme is the representation of time – symbolised by Runge's allegorical portrayal of "Morning" and Friedrich's seascape "The Stages of Life".

BERN
Bern is the first city outside Hungary to be granted the privilege of exhibiting the rich collection of 19th century French drawings held by the Budapest Museum of Fine Art. The show includes works by Delacroix, Manet, Rodin, Seurat, Cézanne (above) and Van Gogh, and has been supplemented by a comparable selection from Swiss collections. It opens at the Kunstmuseum on Friday.

LONDON
The Royal Academy of Arts has organised a retrospective of Gustave Caillebotte, the least known of the Impressionist painters. Opening on Thursday, it includes 20 paintings not shown at the Caillebotte centenary exhibition in Paris in 1994.

Stephen Sondheim's latest musical, "Passion" has its European premiere at the Queen's Theatre tomorrow. The book is by James Lapine. Jeremy Sams directs; his wife Maria Friedman and Helen Hobson (left) take the leading female roles, and Michael Ball (left) plays the hero.

Nigel Williams's new play "Harry and Me" opens at the Royal Court on Wednesday. James Macdonald directs; the cast is led by Ron Cook, Sheila Hancock, and Dudley Sutton.



Behind the Oscars

Nigel Andrews profiles the Academy of Motion Pictures as it celebrates Hollywood's annual rain dance

The menu was Clear Terrapin Soup followed by Boneless Jumbo Squab. The 36 glitterati invited by Louis B. Mayer to dine at Los Angeles' Ambassador Hotel on January 11 1927 included Douglas Fairbanks, Mary Pickford, Harold Lloyd and Cecil B. DeMille. Also tucking in were Mayer's two co-conspirators, Fred Niblo (director of *Ben-Hur*) and Conrad Nagel (actor). They had helped to set this evening up as one that would enter the history books.

Over an earlier soirée at LB's home the three men had conceived the idea of an "organisation of creative elite". This elite would "encourage the improvement and advancement of the arts and sciences of our profession by the interchange of constructive ideas and awards of merit for distinctive achievements."

Seven decades later these "awards of merit" have become the glitziest guerdons on the planet. Their annual presentation is watched by millions in a hundred countries across the globe. For Mayer's 1927 banquet marked no less than the birth of the Academy of Motion Picture Arts and Sciences and what began in part as an industrial relations initiative became the most gold-plated professional clique in the world.

Is the academy more than that today? Does it actually *do* anything, other than supervise the opening of envelopes?

"Mayer began it as a way of presenting the studios' case to the unions," says current president Arthur Hiller, once famed as the director of *Love Story*. "But the function of the academy today and its 5,000 members is, in the phrase I like to use, to honour and nurture excellence. We're a club really. Our members are those we deem best qualified – the country's best actors, directors, writers, craftspeople – to speak up for film as a universal language."

For Hiller and other academicians the Oscars are the public window-dressing, the "come-on". It has been their function for most of the 70 years since the sword-clasping statuette was first designed by art director Cedric Gibbons and sculpted in clay by unemployed art graduate George Stanley. Later it was christened by founding Academy librarian Margaret Herrick. "It looks just like my uncle Oscar!" she supposedly cried, though some claim that Bette Davis coined the term after noting the rear-view resemblance to her husband Oscar.

Herrick certainly inspired the other gleaming monument the academy points to today: its Center for Motion Picture Studies. The collection she began – a treasure trove of books, papers, posters, photographs, scripts, now housed in a gleaming Spanish Mission-style building set back from fume-choked La Cienega Boulevard – is the largest film library in the world containing (in theory) every book on cinema written in English.

The 45,000 square feet are open to the public who can gawp at the domed and skylighted ceilings as well as the "Kirk Douglas staircase" and the "Karl Malden room, through courtesy of American Express Travellers Cheques".

"The company gave a lot of money, had me pick something and I picked that room," says Malden, the *On The Waterfront* actor who became the Academy's president in the late 1980s. "That's how we raised the over-$15m for the Center," he continues. "Other people came in, saw something they liked and opened their cheque books. Kirk fancied the staircase and donated $100,000."

Malden's successor as president Robert Rehme, former head of Universal and producer of action epics like *Hunt For Red October*, fanfares other things he feels the academy should show off about today.

"There's a nationwide student film competition, with over 600 colleges eligible to submit films. Annually we give a $25,000 Nichol Fellowship to five young screenwriters, the best from some 3,000 people who submit scripts each year. We have exhibitions and lecture series, on anything from science fiction to comedy to film music. And we regularly send academy members out to talk or teach across the country."

Ironic, then, that amid these good works the world still knows and cares about the academy mainly – or only – for the Oscars. Arthur Hiller has no idea why this yearly rain dance has established such sway over the public mind. But he has a good idea why it is popular with film-makers.

"Everyone in the creative business is insecure. If you build this table, it's here." He taps his capacious office table. "You can see it, touch it, use it, you know it's good. If you make a movie, you think, 'Sure it's great; well, I think it's great; well, I hope it is; *is it?*' Movie-makers are hopelessly insecure. If the milkman makes a comment that he didn't like your film you go, 'Oh my god, oh my god!'".

So the Oscars are balm poured on troubled egos? But what about the public, who watch rather than win these prizes. Academy archivist and awards co-ordinator Patrick Stockstill believes they get hooked on viewing the annual social frenzy, spiked with competitiveness, for the most famous people in the world.

The statistics are awesome. "Today the Oscars are broadcast live across most of Europe and even in Japan and China," says Stockstill. "Our income from the telecasts funds most of the academy's activities." That income is close to $20m, decent profit even on an event that costs $7m to stage.

For detractors, though, the Oscars and the kind of films that win them are an index of the academy's inbred conservatism. One famous director and member, speaking off the record, says:

"It's a very greyhaired institution and most of the senior members come from the studio system. Which may be why only films from the major studios, and preferably commercial successes, win Best Picture. That and the academy's voting procedures."

Which are?

"The individual branches vote for the five nominations in each category: so that directors will shortlist the best directors, editors the best editors and so on. But the academy membership as a whole votes for the final winners. So if I'm one of 280 director members, our vote for the best film will be outnumbered by 380 hairdressers or make-up people. I don't mean to be arrogant and say that we directors have higher creative insight. But we do!"

There is also the iniquity and inequity of Oscar lobbying practices. Film-maker Henry Jaglom, whose mini-budget *Last Summer In The Hamptons* was an arthouse hit in 1995, says: "I was asked by the academy if I was going to send the film to the membership, but I can't afford to send 5,000 cassettes out. Publicity like that costs $100,000. And then studios spend another hundred thousand on ads in Variety. That's a quarter of my budget. I have to spend that on getting people into the theatre. So yes, it's practically impossible for a small film to win Best Picture."

For a star an Oscar is an undoubted publicity fillip. But Robert Duvall, who won Best Actor for *Tender Mercies* in 1984, is less sure that it is a major career boost. "Maybe you get a little more recognition at airports. But the thrill is in the awards night and the day after. You get very nervous – I did anyway – thinking, 'There are almost a billion people out there watching!'

"Next day you just enjoy it. A friend and I took the Oscar for a drive in a convertible and people along the street or working up telephone poles would shout out, 'Hey, congratulations!' You're king for the day. The whole of America knows you."

Tonight someone else – many someone elses – will get to be monarch for the day. The suspense, the glitter, the clichés begin all over again. So do those things without which no Oscar night would have its gruesome fascination: the acceptance speeches. Just what *was* the most memorable or over-the-top awards speech ever made? For some it was Sacheen Littlefeather's acceptance of absentee Marlon Brando's *Godfather* Oscar on behalf of Indian rights. For some it was Sally *Places In The Heart* Field crying "I know you love me!" to a thousand incredulous tuxedos. For others it was Vanessa Redgrave, raising the political temperature with the appliance of anti-Zionism. For others still, it has been Tom Hanks *passim*.

But Patrick Stockstill says that the Oscar for the most indelible thank-you speech goes to actress Greer Garson. "Legend has it that when she won for *Mrs Miniver* in 1943 she spoke for an hour. At one point the Award presenter Ingrid Bergman stepped back and sat down in a chair. Actually Garson's speech was clocked at 4½ minutes. But she was last on at 12.30 after a long evening and to those present it must have just seemed like an hour."

We know the feeling. We are ready to feel it again tonight.

Theatre/**Alastair Macaulay**

Schiller with no subtlety

Once in a while, the new National Theatre production of Schiller's *Mary Stuart* (1800) lets you glimpse why some people rate this play as serious drama. At the start of the final act, Gillian Barge, as Mary Stuart's loyal nurse/attendant Hannah Kennedy, speaks of her soon-to-die mistress with such quiet admiration that we gain at once new insights into Mary's character, and into Hannah's. Barge plays this beautifully; she does next to nothing, but she seems tenderly lit from within.

James Grout, as Talbot, Queen Elizabeth I's most moderate advisor, makes something serious from every episode he is involved in by the simple attentiveness that he pays to those whom he is addressing. His acting is self-effacing, but fully expresses Talbot's decent, seasoned, honest character. And, as Queens Mary and Elizabeth, both Isabelle Huppert and Anna Massey handle a few tricky moments effectively enough. At these moments, we feel the play's post-Shakespearian interleaving of private and public lives.

Most of the time, however, Howard Davies's staging makes *Mary Stuart* seem to be a coarse melodramatic reduction of the serious events it covers, a stupid and obvious play for stupid and obvious audiences – as if poor Schiller was the Pam Gems of early Romanticism.

This is only occasionally the fault of Jeremy Sams's translation, which has a few of those too-flip tricks of parlance which Sams, it seems, can never resist. In Act Two, for example, Leicester re-enters and says "I'm terribly sorry. Is this a bad time?" (Two former translations render this as "Good sir, permit me a word with your nephew" or "Worthy sir! I with your nephew wish a word".) And when Paulet departs, Leicester says "Oh dear, what's got into him?" Elsewhere, however, this translation proves fluent and eloquent, as when Queen Elizabeth asks herself "Is justice part of my free will? Hardly." And when she thanks Talbot for saving her life, he plainly replies, "If only I could have saved your honour."

No, the real problem is not the text but the fact that neither Davies nor most of his cast respect it. One crucial scene after another is spoilt by intrusive music (by Jason Carr, much of it handsomely written) played through the words. Only Barge and Grout truly act from within. Tim Pigott-Smith plays Leicester as so blatantly duplicitous and shallow that we feel that both queens must be daft to be taken in by him for a moment. As Elizabeth's unrelentingly harsh counsellor Burleigh, Paul Jesson is a badger; the role requires a fox.

Huppert is all busily affecting surface. Prettily tearstained cheeks, glamorously sustained gestures, earnestly chesty vocal tones, artfully misplaced caesuras, vivid transitions from *piano* to *forte* and from one octave to another . . . all of it striking and none of it believable. She is especially unspontaneous at listening to anyone else.

Massey plays most of Elizabeth in her most obvious snide-bitch manner. Her killer diction is deployed at its harshest, with several camp vocal swoops like heavy imitations of Edith Evans's Lady Bracknell (and one or two effects more Thatcheresque). She is at her best in her climactic soliloquy with Mary's death-warrant, though she promptly reverts to flashy bitchiness in the ensuing dialogue with her secretary Davison, where her regal inscrutability should be the whole point. Huppert is at her best in the second difficult scene with Mortimer, flinching in gathering alarm from his touch, and in the controlled grace of her final scene with her enemy Burleigh; but she too soon blows it.

Neither of these queens makes us feel the working of her nervous system. And the way both of them, and several of their courtiers, keep turning to make wide-eyed silent appeals to the audience is staggeringly cheap. Massey, with death's-head make-up and two different wigs, looks more than the 54 Elizabeth was at the time of Mary's death, Huppert a blooming 44-year-old (Mary's age at the time) – but Schiller wrote in a letter "In the play Mary is about 25, Elizabeth at most 30." Leicester's lines in praise of this Elizabeth's youthful beauty sound mendacious to the point of grotesquerie.

Claude Lorrain views of rural strongholds are reproduced on William Dudley's sets. But there are more changes of scene than Schiller's drama needs. The women wear Elizabethan dress, the men 19th-century frock-coated suits. David Hersey's lighting lets too many faces fall into shadow.

The last problem – the most predictable in advance, the most obvious in the event – is Huppert's French accent: which is an obstacle course in itself. If you concentrate hard, you can understand perhaps nine-tenths of what Huppert says. For example: "We oll knoh why Arne Boleine murnted the seeffold." Do we?

In National Theatre repertory at the Lyttelton Theatre, South Bank, SE1.

INTERNATIONAL ARTS GUIDE

■ AMSTERDAM

CONCERT
Concertgebouw
Tel: 31-20-5730573
● Sergiu Luca: the violinist performs sonatas and partitas for violin solo by J.S. Bach; 8.15pm; Mar 28
EXHIBITION
Van Gogh Museum
Tel: 31-20-5705200
● Philipp Otto Runge and Caspar David Friedrich. The Passage of Time: the first exhibition in the Netherlands to be devoted to German Romanticism. The display features paintings, drawings, watercolours and paper cut-outs by the two leading figures of this movement; from Mar 29 to Jun 23

■ BERLIN

CONCERT
Konzerthaus Tel: 49-30-203090
● Missa da Requiem: by Verdi. Performed by the Rundfunk-Sinfonieorchester Berlin and the Rundfunkchor Berlin, conducted by Rafael Frühbeck de Burgos. Soloists include soprano Györngyi Lukazs, alto Linda Finnie, tenor Vincenzo la Scola and bass Ferruccio Furlanetto; 8pm; Mar 29
OPERA
Deutsche Oper Berlin
Tel: 49-30-3438401
● Tannhäuser: by Wagner. Conducted by Jiri Kout and performed by the Deutsche Oper Berlin. Soloists include Victor von Halem, René Kollo, Walton Grönroos and Clemens Bieber; 6pm; Mar 30; Apr 5

■ BRUSSELS

THEATRE
Rideau de Bruxelles
Tel: 32-2- 507 83 60
● Trois Grandes Femmes: by Edward Albee. Directed by Roumen Tchakarov. The cast includes Jacqueline Bir, Anne Chappuis and Valérie Bauchau; 8.15pm; from Mar 26 to Apr 4 (not Sun)

■ CHICAGO

DANCE
Shubert Theater
Tel: 1-312-977-1700
● Alvin Ailey American Dance Theater: in a series of performances as part of the 1996 Spring Festival of Dance. Included are Alvin Ailey's choreographies Cry, Revelations and The River, and Judith Jameson's Riverside and Hymn; 7.30pm; Mar 26, 27, 28, 29 (8pm), 30 (2pm & 8pm), 31 (3pm)

■ COLOGNE

CONCERT
Kölner Philharmonie
Tel: 49-221-2040820
● Wiener Philharmoniker: with conductor Pierre Boulez perform Haydn's Symphony No.104 in D major and Mahler's Symphony No.5 in C sharp minor; 8pm; Mar 30

■ COPENHAGEN

EXHIBITION
Nationalmuseet - The National Museum Tel: 45-33 13 44 11
● Sultan, Shah and Great Mughal: exhibition focusing on the religion, history and culture of the world of Islam. The display includes exhibits from Danish museums and collections, together with photographs and illustrations; from Mar 29 to Sep 29

■ DRESDEN

DANCE
Sächsische Staatsoper Dresden
Tel: 49-351-49110
● Ring um den Ring: a choreography by Béjart to music by Wagner, performed by the Ballett der Deutschen Oper Berlin; 6pm; Mar 29

■ FRANKFURT

CONCERT
Alte Oper Tel: 49-69-1340400
● Deutsches Symphonie Orchester Berlin: with conductor Vladimir Ashkenazy and cellist Lynn Harrell perform Dutilleux's Tout un monde lointain… and Ravel's Daphnis et Chloé; 5pm; Mar 31

■ HAMBURG

EXHIBITION
Hamburger Kunsthalle
Tel: 49-40-24862612
● Turner in Deutschland: the English landscape painter William Turner (1775 - 1851) made seven extensive journeys through Germany in the period between 1817 and 1844. This exhibition presents the artistic proceeds of these travels - drawings, watercolours and sketchbooks - in combination with a reconstruction of the journeys that Turner made; to Mar 31

■ HELSINKI

CONCERT
Opera House Tel: 358-0-403021
● Margaret Price: accompanied by pianist Thomas Dewey. The soprano performs songs by Wolf and R. Strauss; 7pm; Mar 28

■ LONDON

CONCERT
Barbican Hall Tel: 44-171-6388891
● The Royal Philharmonic Orchestra: with conductor Valery Gergiev and violinist Vadim Repin perform Prokofiev's The Tale of the Buffoon, Shostakovich's Violin Concerto No.1 and Stravinsky's The Firebird; 7.30pm; Mar 30

■ MUNICH

EXHIBITION
Staatsgalerie Moderner Kunst
Tel: 49-89-21127137
● Franz Marc und Fritz Winter. Zeichnungen zum Krieg: exhibition centred around Marc's "Skizzenbuch aus dem Felde" (1915) and Winter's "Kriegszeichnungen" (1940-1944). The display focuses on the parallels and differences between these drawings made in the first and second world wars, and on the views of their creators on the war. The exhibition also includes watercolours and paintings; from Mar 28 to May 19

■ NEW YORK

CONCERT
Avery Fisher Hall
Tel: 1-212-875-5030
● New York Philharmonic: with conductor Kurt Masur perform Beethoven's Leonore Overture No.3 in C, Op.72a, Symphony No.2 in D, Op.36 and Symphony No.7 in A, Op.92; 8pm; Mar 29
EXHIBITION
International Center of Photography Tel: 1-212-860-1777
● Horst: A Retrospective: exhibition honouring the work of the recipient of the 1996 ICP Mastery of Photography Award. Although Horst is principally known for his work as a fashion photographer, the display also looks at other aspects of his work; from Mar 31 to Jun 2

■ PARIS

CONCERT
Salle Pleyel Tel: 33-1 45 61 53 00
● Orchestre Philharmonique de Radio France: with conductor Eliahu Inbal and the Choeur de Radio France perform Mahler's Lieder eines fahrenden Gesellen and Das klagende Lied. Soloists include soprano Françoise Pollet, mezzo-soprano Sylvie Sullé, tenor Hans-Peter Blochwitz and bass Thomas Quasthoff; 8pm; Mar 29
Théâtre des Champs-Elysées Tel: 33-1 49 52 50 50
● Maxim Vengerov and Itamar Golan: the violinist and pianist perform works by J.S. Bach, Shchredin, Elgar, Bloch and others; 8.30pm; Mar 30

■ ROME

CONCERT
Accademia Nazionale di Santa Cecilia Tel: 39-6-3811064
● Wiener Philharmonisches Orchester: with conductor Pierre Boulez perform Haydn's Symphony No.104 in D (London) and Mahler's Symphony No.5 in C sharp minor; 8.30pm; Mar 27

■ STOCKHOLM

OPERA
Kungliga Teatern - Royal Swedish Opera House Tel: 46-8-7914300
● Le Nozze di Figaro: by Mozart. Conducted by Markus Lehtinen and performed by the Royal Opera Stockholm. Soloists include Peter Mattei, Lena Hoel, Rolf Cederlof and Ingrid Tobiasson; 7pm; Mar 30

■ VIENNA

CONCERT
Konzerthaus Tel: 43-1-7121211
● Wiener Kammerorchester: with conductor Sándor Végh and pianist Oleg Maisenberg perform works by Haydn and Beethoven; 7.30pm; Mar 30, 31

■ WASHINGTON

POP-MUSIC
Concert Hall Tel: 1-202-467 4600
● Ray Charles: joins the National Symphony Orchestra in a programme including favourites like "Hit the road, Jack", "Georgia on my mind" and "I can't stop loving you"; 7pm; Mar 28, 29 (8.30pm)

WORLD SERVICE
BBC for Europe can be received in western Europe on medium wave 648 kHZ (463m)

EUROPEAN CABLE AND SATELLITE BUSINESS TV
(Central European Time)

MONDAY TO FRIDAY

NBC/Super Channel:

07.00
FT Business Morning

10.00
European Money Wheel
Nonstop live coverage until 15.00 of European business and the financial markets

17.30
Financial Times Business Tonight

CNBC:

09.00
Squawk Box

10.00
European Money Wheel

18.00
Financial Times Business Tonight

Michael Prowse • America

A silenced speaker

Gingrich is a diminished political figure but it would be premature to write off his conservative revolution

Few politicians can have fallen from grace more rapidly than Mr Newt Gingrich, the speaker of the US House of Representatives. For much of last year he effortlessly dominated the political landscape.

His legislative agenda – the Contract with America – defined the terms of debate in Washington. He appeared almost nightly on the television news, sounding off on every subject under the sun. He wrote a best-selling book and was mentioned as a possible Republican president, if not this year then in 2000. As his "revolution" unfolded, political pundits seriously debated whether President Bill Clinton and the Democrats were any longer relevant to the nation's future.

The scene today could hardly be more different. Mr Clinton looks more confident than at any time during his presidency. Mr Gingrich is a shadowy figure, with a low profile. Opinion polls indicate he is deeply disliked by many voters. Once a commanding figure at Republican press conferences, he now lets Mr Bob Dole, the presidential nominee and Senate majority leader, do the talking. He describes himself modestly as Mr Dole's "junior partner".

To some degree, his eclipse is a natural result of the political cycle. Once he decided not to enter this year's presidential contest, he instantly relegated himself to the second division. So long as they stood even a faint chance of winning the Republican nomination, relatively minor figures such as Mr Steve Forbes, the millionaire publisher, and Mr Pat Buchanan, the rightwing commentator, were hotter media properties. But even allowing for presidential politics, Mr Gingrich has become strangely ineffectual. He has, for example, played no part in the economic debate that has dominated the headlines this year – the national angst over "job insecurity".

It seems that he is yet to recover from his humiliating defeat in the budget standoff with the White House at the end of last year. Mr Clinton's masterly performance reminded me of Muhammed Ali's tactics in his title fight with George Foreman in Zaire. Ali absorbed more punches than seemed humanly possible, giving Foreman a false sense of confidence. Then, at the critical moment, he rallied sufficiently to deliver a knockout blow.

Mr Clinton's tactics were uncannily similar. He let the Republicans pummel him for months. He gave every impression that he would fold under pressure. Then, at the eleventh hour, he pulled out his mighty veto pen. With public opinion on his side, he stood firm even when Republicans forced the partial closure of the federal government. Too late, Mr Gingrich learned an elementary political lesson. You cannot govern from Congress: powers really are separated under the constitution.

But his (temporary) loss of stature does not mean the policies he championed were fundamentally flawed. His Republican revolution was always a less radical affair than pundits cared to admit. The essential elements included a balanced budget by 2002; a small reduction in the overall size of federal government; a devolution of power (especially in social policy) from Washington to states and localities; modest tax cuts, mainly targeted at children; reform of Medicare and Medicaid, the healthcare programmes for the elderly and poor; and an overhaul of welfare.

This was a politically ambitious but not unreasonable agenda. Policies along similar lines had been implemented in several states by popular Republican governors such as Mr John Engler of Michigan, now mentioned as a possible running mate for Mr Dole. A strand of conservative opinion – represented by Mr Forbes and the Wall Street Journal's editorial page – admittedly regarded Mr Gingrich's emphasis on balancing the budget as a dangerous retreat from the "pro-growth" policies of the Reagan era. But this was short-sighted: cutting the deficit is a way of stimulating savings and hence of boosting growth. Even Mr Clinton is now rhetorically committed to zero deficits – evidence that the policy has political as well as economic merits.

Other aspects of the Gingrich agenda were equally sensible. After half a century of creeping centralisation, there is a compelling case for devolving powers from Washington to the states. Ms Alice Rivlin, the budget director, called for just such a policy in a book published shortly before she joined the Clinton administration. Senior Democrats will also admit privately that the big federal entitlement programmes such as healthcare must be curbed and reformed. They crucified Mr Gingrich for proposing to cut the annual rate of growth from 10 per cent to 6 per cent. Yet, in 1993, Ms Hillary Clinton proposed roughly equivalent curbs in her ill-fated reform plan.

Mr Gingrich was perhaps politically naive. If he had wanted to maximise his popularity he should have talked less about fiscal austerity. He certainly should not have laid a finger on Medicare. He should also have polished his public image: his petulant bomb-throwing style undermined his credibility even among potential sympathisers.

Yet although he lost the public relations battle of 1995, it would be premature to write him off as a politician. Under Mr Dole's leadership, the Republicans may yet salvage something in coming weeks in budgetary negotiations with Mr Clinton.

If Republicans retain control of both houses of Congress this November and if Mr Dole defeats Mr Clinton (admittedly two big ifs), Mr Gingrich will be triumphantly back in the policy saddle.

Even Mr Dole's best friends concede he is not an "ideas man". As president he would probably be preoccupied with foreign policy. Domestic affairs would be largely delegated to Congress – which would mean to Mr Gingrich and Mr Trent Lott, his Senate soulmate.

In 1997 we could thus see a replay of 1995 – with one enormous difference: President Dole would sign those bills that Mr Clinton took such pleasure in vetoing. And the Republican revolution would finally deliver on its promises.

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

We are keen to encourage letters from readers around the world. Letters may be faxed to +44 171-873 5938 (please set fax to 'fine'). e.mail: letters.editor@ft.com Translation may be available for letters written in the main international languages.

Downsizing a poor alternative to an effective business strategy in winning customers

From Mr Alan Williams.

Sir, Michael Prowse ("Blame consumers", March 18) proposed that the "corporate killers" are serving the community by responding to consumer signals. He is correct only in the most restricted sense; companies lose customers by failing to satisfy their needs. But that failure is an indictment of management that has ignored the developing signals in the market. Why should we praise managers for "slash and burn" corrections of their own mistakes?

A business that delivers consistently good returns to its shareholders has to have regard also to its customers and the employees whose activities make it possible for customers to buy; these are all stakeholders. Downsizing, or whatever one calls it, creates the "who's next?" syndrome and staff will leave. The first to go will be those with the marketable skills; they are the ones that the business needs most to ensure satisfied customers. Creating constant worry in middle management is a very effective way to ensure the ultimate failure of a business.

There is an alternative but it has been largely forgotten. The good manager notices threats, identifies opportunities and then moves positively to avoid the former and to grasp the latter. Cunard destroyed its reputation with the QE2 refit voyage. British Rail had "the wrong kind of snow". What about leaking Yorkshire Water? Contrast staff morale in these businesses with those of Richard Branson, who develops and builds businesses.

Mergers and acquisitions like Sandoz/Ciba and Glaxo/Wellcome have been financially justified by savings from job losses. Interestingly, the demerger of AT&T is also justified by similar savings. Harvard's Michael Porter said that "acquisition is not a strategy"; presumably the same applies to demergers. Neither wins customers; effective business strategy does.

So, is cost-cutting the way forward or would positive business development offer a better future? Are there any top managers left who understand how to make businesses adapt and grow?

Alan Williams,
Managing Resources,
18 Topcliffe Way,
Cambridge CB1 4SH, UK

Courtesy on the wane

From Mr Franco Cavallini.

Sir, I am an Italian engineer who for 27 years has worked in the UK, acting as agent for Italian manufacturers of heavy engineering equipment and civil engineering contractors. On February 19 I sent literature of my principals, with an accompanying letter, to the chief buyer or director of purchasing of 23 leading British civil engineering contractors, well known both nationally and internationally. I have so far received a fax reply from just one of them – the others did not even bother to acknowledge receipt of my correspondence.

I then called these 22 and was advised, mostly by secretaries, that my letter had been received and that the literature I had enclosed was "in the company files".

Twenty-six years ago my business letters invariably were answered or acknowledged by companies in the UK, rarely by continental companies. Indeed, in my contacts with the latter I used to underline the higher level of business manners found in the UK.

Those were the days. Now, it would appear that levels of business courtesy have changed for the worse in the UK. Would your readers agree?

Franco Cavallini,
44 Polhill Avenue,
Bedford MK41 9DU, UK

Strategy would severely hit cocoa prices

From Mr P. Amoah-Ntim.

Sir, I read with great interest the article "European Commission grapples with the content of chocolate" (March 20). If I may, I would like to clarify certain issues.

The article is right when it argues that harmonisation of vegetable fats will lead to a severe displacement of cocoa as a consequence of the substitution of alternative vegetable fats to cocoa butter in chocolate. However, the main threat for cocoa producing countries is not in volume but in price. Any displacement will result in a severe fall in the price of cocoa as it is a very sensitive commodity. While this would create a pressure on the European Union's mechanism for supporting export revenues (Stabex) – ultimately paid for by the European tax payer – it is highly likely that cocoa producing countries will suffer a dramatic loss that will jeopardise their entire development programme.

Second, the article mentions that chocolate manufacturers would not agree to the mention of the use of alternative vegetable fats on the wrapping, other than in the list of ingredients at the back. Indeed, Mr Baudouin Michiels, president of Caobisco (the European Association of Biscuit and Confectionery Manufacturers), declared in an interview at the last International Cocoa Organisation meeting in London that industry "is very, very reluctant to put vegetable fats [on the label] because people would consider this as a bad product".

Should we understand by this that the only condition for selling chocolate products containing alternative vegetable fats is that consumers are unaware of their presence? And is it right that the large chocolate manufacturers should decide for the consumer what is a good or a bad product?

Therefore, not only is the use of vegetable fats other than cocoa butter contrary to the interests of cocoa producing countries, but also to those of European consumers.

P. Amoah-Ntim,
ag. head of mission,
Ghana Embassy,
7 Blvd General Wahis,
1030 Brussels, Belgium

Naval background teaches 'followership' skills

From Mr Kenneth P. Armitage.

Sir, In her otherwise stimulating column, addressing the subject of leaders and followers, Ms Lucy Kellaway ("Unskilled in the art of followership", March 18) asks "if Sir John Harvey-Jones has any himself".

If she had researched Sir John's background she will have noted that he served in the Royal Navy for 20 years. As a midshipman at Dartmouth, and at sea under training, he would, undoubtedly, have been taught the importance of teamwork, the need to learn to accept direction and have been told that before becoming a leader one must first learn how to follow.

Leadership is not simply about status and decision making, it is about the most important resource, people. Officers are taught the principles of leadership, through academic, professional and practical courses, such that they will be knowledgeable enough to earn the respect of subordinates and, eventually, be in a position to accept responsibility and accountability.

Managers are not necessarily leaders and leaders are not always managers. In some situations it is the person with the most knowledge of a given set of circumstances who takes or accepts responsibility for resolving difficulties and others, recognising that knowledge, become followers and eventually, perhaps, leaders.

Kenneth P Armitage,
6 Deben Valley Drive,
Kesgrave,
Suffolk IP5 7FB, UK

Key to the right contacts

The cultivation of connections in China can produce mixed results, says Robert Thomson

Connections are supposed to count in China. If your company has a Beijing contact who knows an official who has a close relationship with a person who is an intimate friend of someone in the extended family of Deng Xiaoping, then lo, the deep waters of bureaucracy part and you walk into the Promised Land of 1.2bn consumers.

The cultivation of connections has, like the production of duck-down jackets in China, grown into a sprawling industry of variable quality. Effort put into buying air tickets and banquets for somebody who knows someone could leave a well-meaning investor with an interesting collection of hotel bills and only a small gift in return – perhaps a pair of cloisonné chopsticks.

The exact value of *guanxi*, as contacts are called, may be difficult to estimate, but the time has come to call in the auditors. Foreign companies relying on the divine intervention of political patrons spend too long digging around deals that cannot be done, and gung ho go-betweens are making too much money in the meantime.

For lessons in the art of leveraging friendship, turn to the traditional Chinese textbooks. There is general agreement that friends are an asset, whether it be in jumping a queue for a theatre ticket or securing a rare shipment of Shanghai hairy crabs. But the connections must be put in context: the hairy crab contact is probably of no use on theatre tickets.

The Chinese are also aware that, crudely put, there are two classes of *guanxi*: the familiar face called on for fairly routine favours; and the truly powerful individual who is tapped for the Big One.

A foreign company will struggle to survive in China without the first class of contacts – for permission to import the new office car, for that extra telephone line and for not unsympathetic treatment by the tax authorities. And, every now and again, a project needs a Big One, a life-saving indulgence from the Communist party or a local government official.

With cultivation in mind a parade of potential investors continues to pass through China, bearing a list of real or imagined contacts, a "well-connected" consultant, and a straight-line strategy in a commercial culture with the sharp curves of quasi-communism.

Economic reform, aimed at developing a "socialist market economy", has blurred the lines of command. Trade had been dominated by monolithic import-export companies with clear links to ministries. The rise of provincial power and the frenetic formation of companies with links to the military or a ministry or an influential individual have created doubt over the real length of a partner's reach.

Take Reuters, which is knee-deep in commitment to China. The UK-based information company has an alliance with China International Trust and Investment Corporation, better known as Citic, and widely believed to be a powerful patron because of its role as the central government's investment arm.

But Reuters has received a low blow from another organisation with clout: Xinhua, the news agency. A traditional guardian of media morals, Xinhua has convinced the State Council to approve a directive giving it control over all electronically-delivered information and, more to the point, a piece of the action. The opening claim is apparently for about 15 per cent of Reuters revenue in China.

Mr Rupert Murdoch's News Corporation has faced similar difficulties in finding a Great Helmsman to steer it through the choppy waters of the Chinese market. The company has a small joint venture with the People's Daily, while Star TV, the satellite broadcaster, has been negotiating with Carefree Development, a Hong Kong-based oil services outfit which boasts of its connections in the Central Military Commission.

The CMC has the final say on exactly where to test-fire missiles aimed in the general vicinity of Taiwan, but is not famed for its links with China Central Television, which still chooses the channels on Chinese TV. Still, there is always a possibility that Carefree has spotted a breach in the bureaucracy and the country will be introduced to the pleasures of pay-TV.

Even ethnic Chinese have to be careful in their courtship of contacts. Mr Li Ka-shing, head of Cheung Kong, the property and investment company, has found a mood change in Beijing where his company is creating Oriental Plaza, a grand retail spread within a couple of blocks of Tiananmen Square.

The resignation of the city's party boss and a campaign against "unhealthy tendencies" have made the government more cautious in approving contracts for "old friends" from Hong Kong.

Eighteen years of economic reform and the above examples suggest that just as China has Four Cardinal Principles and Eight Treasures Tea, there are Three Immortal Laws of Good *Guanxi*:

- Law One: Chinese politics is unpredictable. Not even senior officials know exactly who is running the country, and a promise made in Beijing may have lost its meaning by the time a factory is built in Chongqing.
- Law Two: Be wary of intermediaries touting comradely connections. It is quite easy and lucrative to suggest that your brother has a buddy on the Politburo, and that a first cousin is so close to the military that he is almost in uniform.
- Law Three: Due diligence in China means scrutinising the vested interests of a partner, as well as tallying the market opportunities. Confucius probably had joint ventures in mind when he said: "Look at the means which a man employs; consider his motives; observe his pleasures. A man simply cannot conceal himself."

FINANCIAL TIMES

Number One Southwark Bridge, London SE1 9HL
Tel: +44 171-873 3000 Telex: 922186 Fax: +44 171-407 5700

Monday March 25 1996

The death of British beef?

UK farming is facing one of its worst disasters this century. The crisis of Bovine Spongiform Encephalopathy, or mad cow disease, has more cataclysmic financial and social implications for farming than the 1960s epidemic of foot-and-mouth disease, or the outbreak of salmonella and the Chernobyl radioactive fallout in the 1980s. Despairing farmers lean on the rails at cattle markets, waiting for non-existent buyers, but export markets have collapsed, while sales at home are only slightly better. Over it all hangs one apocalyptic image: the threat that the UK's 11m cattle may have to be exterminated.

The questions of who knew what, and when, are yet to be answered. It is easy to argue that the government *should* have done more, sooner; it is also clear that it was near-impossible to strike the right balance between alarmism and complacency. The more pressing questions are what can be done to prove that UK beef is safe again, and whether compensation should be paid to farmers.

The greatest problem is that the cause of the disease in cattle is still unknown. The best hypothesis is that animal-based feed has played a central role. Since such feed was banned, cases of BSE in cattle have more than halved; almost all recent cases have occured in animals born before the ban. However, other hypotheses, such as cows passing the disease to calves, have not been disproved. Nor, until it is understood whether the disease has been transmitted to people, and if so how, is it possible to argue conclusively that products such as fillet steak are safer than offal.

Expensive operation

One suggestion is that slaughtering the entire stock of cattle – about 11m animals – would allay fears. There are practical obstacles to this horrific and expensive operation, notably the need to build incinerators to dispose of the carcasses. But the greater worry is that this might not prevent reintroduction of BSE if the contaminated-feed hypothesis is wrong. Moreover, total slaughter could frustrate the invention of a test to establish whether cattle carried the disease while they were still alive, one of the best long-term ways to establish safety. The preferable route is selective slaughtering. One increasingly popular suggestion is that all cattle over a certain age – the most likely to have been exposed to contaminated feed – should be killed.

But such selection is easier said than done. First, records of which herds have shown signs of the disease appear to be incomplete. There is widespread suspicion that farmers did not report all cattle showing signs of the disease. Second, this basis of selection assumes that the contaminated-food thesis is right. Third, this solution creates a formidable and expensive problem of policing farmers and slaughterhouses.

No compensation

As for compensation, some feel that farmers should be treated like any other producers of faulty goods – that is, offered no compensation. It seems that the intensive farming practices which many farmers embraced eagerly may have been to blame. Yet farmers could reasonably argue that the government authorised those practices. While this blight has not fallen from a clear blue sky, as did the Chernobyl debris, there are still grounds for regarding the evolution of a new disease as a natural disaster. Compensation should be paid to those who will lose their livelihoods, for many years if not permanently.

Amid such calamity, it may be harsh to talk of silver linings. But the long-term effect of the scare is that people will start to look more closely at how food is produced. Far too little information is available, for example, on the levels of pesticides in vegetables. Equipped with such information, people may well start to find food produced by some intensive methods unpalatable. They may also be galvanised into examining more seriously the sustainability of unfarmed food stocks, such as fish. A radical examination of Europe's Common Agricultural Policy and its even more controversial fisheries policy is long overdue, but has too often been regarded as politically inaccessible. The catalyst to make such a review possible may now be to hand.

China must talk to Mr Lee

Mr Lee Teng-hui's sweeping victory in Taiwan's presidential elections is a mark of courageous defiance by the voters of China's threats. It also demonstrates their desire for moderation. Democracy may be new to Taiwan but, in voting for a president who still formally espouses the idea of eventual unification with China, the electorate has shown a healthy desire to avoid extremes.

The New Party, which supports speedy unification with China, did predictably badly. But Mr Peng Ming-min, candidate for the Democratic Progressive Party which argues for formal independence, came a distinctly weak second. Saturday's vote thus in no way reflects public pressure to push for formal independence. Instead, by turning out in droves for Mr Lee, the electorate revealed an overwhelming desire for the maintenance of the *status quo*: effective independence under a leader prepared to deal firmly with China, but not one who is actively seeking the confrontation implicit in an irrevocable break.

Mr Lee has a strong mandate and he must use it wisely. It would be easy to crow now that China's tactics have been exposed as those of a blundering bully. Having attained full democracy, Taiwan could step up its claim for international recognition. Yet it is much more important to establish a viable relationship with the mainland. Mr Lee has to deal with China; and China must now realise it has to deal with him.

It would be in everybody's interests for the two sides to seek an accommodation that would reduce tension and increase mutual prosperity. As far as Mr Lee is concerned, that will require magnanimity, flexibility and the dexterity of a statesman able to lead public opinion as well as merely reflect it.

Broader agenda

Even before Saturday's election Mr Lee's Kuomintang Party had made clear its desire for a resumption of talks with China. He should continue to hold out such a possibility, despite China's hostility. Discussions over practical issues such as shipping and air links were broken off by Beijing after Mr Lee's now notorious US visit last year. Any new talks should aim at a broader agenda, to put the relationship on a more stable footing, and avoid repeating the tension of recent weeks.

Ultimate aim

That will not be possible without some concessions on the part of Taiwan. At the very least it would have to reaffirm its ultimate aim of reunification and scale back its campaign for UN membership. The latter move would be difficult to sell at home, but Mr Lee might have the authority to do so if there were sufficient concessions from China in return.

These might include a non-aggression commitment, along with accelerated moves to open up economic and trade links, and agreement to allow representation for Taiwan in some international bodies. Alongside early membership of the World Trade Organisation, China could concede observer status at the International Monetary Fund and World Bank with, possibly, some indirect financial involvement.

Any deal along these lines would be an enormous boost to Taiwan's flagging economy. But there should be no illusion that it could materialise quickly. China has made the task much harder by its ill-considered adventurism in the Taiwan Straits. The military hardliners who promoted the policy of confrontation may have intended to teach Taiwan a lesson, but they have paid a heavy price in the form of a fresh deterioration in China's relationship with the US. Worse, they have suffered a serious loss of face. It is difficult to predict how they will react.

If China is really serious about wanting unification, it must ponder the most effective strategy for achieving that aim. Force will always be counter-productive. The unification process will inevitably be a long one since China and Taiwan are at such widely different stages in their economic and political development. But it has a better chance of staying on track if the two sides can establish a friendly relationship and integrate their economies. Now that Taiwan is a democracy, it has to be won over, not subdued.

Carlos Menem

Fernando Henrique Cardoso

Ernesto Zedillo

The shifting battleground

Latin American countries are winning the war against inflation but face an important fight over unemployment, says Stephen Fidler

Good news on inflation has been bad news for Brazilian chickens. Since Brazil's anti-inflation plan was put into effect in mid-1994, inflation has fallen to 15 per cent from 7,000 per cent, and poor Brazilians have been able to afford a better diet; they ate 17 per cent more chickens last year than in 1994.

Life in the slums of Rio de Janeiro is a little easier, and President Fernando Henrique Cardoso has managed to sustain his popularity. Contrary to the popular wisdom of the 1980s, economic stabilisation policies are not always disastrous for politicians.

Unfortunately, the low inflation honeymoon does not last for ever, as President Carlos Menem of Argentina is now finding out. His country started earlier with its stabilisation programme and annual inflation has now fallen below 1 per cent, its lowest for 50 years.

But since Mexico's financial crisis erupted in December 1994, Argentina has been struggling to fend off recession. The economy shrunk by more than 3.5 per cent last year, unemployment is officially over 16 per cent, and President Menem is coming under pressure to change economic tack.

President Ernesto Zedillo of Mexico probably wishes he had it even that easy. Mexico's economy contracted 7 per cent last year. Interest rates remain stubbornly high, choking off any prospect of vigorous recovery.

Despite this mixed Latin American economic climate, international capital inflows – the key to the region's growth in the early 1990s – have resumed rapidly after a collapse in the first quarter of 1995. According to the World Bank, net private sector flows dropped last year by 32 per cent, but at $33.2bn were still higher than any year prior to 1993.

As bankers flocked to the annual meeting of the InterAmerican Development Bank, which began at the weekend in Buenos Aires, there was optimism the figure would rise further this year. But there is also an awareness that Mexico's crisis has heightened the tension in Latin America between fighting inflation and dealing with unemployment and other social problems.

"Latin American governments have found the formula for inflation, but that's yesterday's battle," said one development bank official. "Today's problem is how to deal with the unemployed."

For financiers, Latin America still represents opportunity. If things have been bad, they argue, the worst could well be over. Growth will return to Mexico and Argentina this year, and accelerate next; it will be sustained in Brazil, which could be a $1,000bn economy by 2000. Chile – with its successful export and savings-oriented economy – has shown the way forward and is insulated from economic problems elsewhere in the region. Other countries, such as Peru and Colombia were hardly effected by the crisis.

While some countries remain heavily indebted, or vulnerable to outflows of capital, the ability of Latin America to service its debt is gradually improving.

Exports have risen, their dollar value growing by 18 per cent last year. Several countries – Argentina, Mexico, Colombia and Peru included – have followed Chile's successful programme of privatising pensions, which should in the medium term raise domestic savings and provide a pool of local capital, reducing over-dependence on flighty external investors.

Governments have deepened their orthodox market-oriented economic programmes, accelerating privatisation and other measures. Mr Marcilio Nunes de Alencar, governor of the state of Rio de Janeiro, says he has no choice but to privatise the companies under his administration's control as they gobble up $500m of the state's $8bn annual revenues. He repeats what has become a mantra for politicians across Latin America: "The state should be regulating, not controlling, the economy."

Even Venezuela, which tried an alternative, populist track and eschewed budgetary discipline after a banking crisis in early 1994, seems to be turning back into the hands of the International Monetary Fund.

Latin America, for now, enjoys the overspill of international liquidity which remains plentiful, in spite of recent rises in long-term US interest rates. Flows of foreign direct investment to the region have been maintained, at around $18bn last year, as companies, the majority from outside the area, look abroad to establish footholds in potentially faster-growing regions of the world.

Yet the Mexican crisis has had an effect. The flow of international bond market lending to Latin America has recovered, but at terms significantly less generous to borrowers. And portfolio equity flows have been hesitant in returning, although in the long term the need for institutional investors in the industrialised countries to diversify their portfolios should sustain flows of private capital into Latin America.

Furthermore, the rescue of the region's banking systems after crises in Mexico, Argentina and elsewhere entails substantial public spending which, if budgetary virtue is to be maintained, cannot be used to resolve pressing social needs. And although economic reform has increased international competitiveness – Argentina's economy minister Mr Domingo Cavallo, for example, says Argentine unit labour costs have fallen by 15 per cent since 1991, in spite of a rise in real wages – it is not yet seen by the public as creating new jobs.

The further reforms that orthodox economists such as Mr Cavallo say will reduce unemployment, such as Chilean-style labour laws that make it easier to fire people and make employers feel freer to hire them, will be more difficult to pass when unemployment is feared by voters.

Unemployment, in part caused by the increasing trend among women to seek employment, is also associated with a range of newer social problems.

"The issues which have traditionally exercised public opinion ... are poverty and the unequal distribution of income. The issues which are emerging are urban insecurity and violence, corruption, drug trafficking and drug addiction," says the UN Economic Commission for Latin America and the Caribbean, in a new report on social trends.

As in the US and Europe, therefore, pressures are growing on governments to reverse the unilateral reduction in trade barriers that has occurred across the region since the mid-1980s, to protect industry from imports. If heeded, this would reverse the recent progress towards regional economic integration.

Another set of previously submerged problems, exposing the weakness of the region's institutions, has been unveiled by success in combating the chronic inflation of the 1980s. Since inflation is a manifestation of government inability to resolve competing claims on its resources, this should be no surprise. In Brazil, for example, low inflation has revealed a chaotic public sector. Some states are spending more than 100 per cent of revenues on wages and salaries, but cannot fire public servants because the constitution forbids it.

Most Latin American governments have emerged only in the last 15 years from military rule. And while the military has taken a back seat everywhere, except Cuba, it still looms unreformed and often unrepentant over the civilian governments of many countries.

Political power tends to be concentrated in the president, as in Mexico, Argentina or Peru, or widely dispersed, as in Brazil. The goal of developing a political system capable of making firm decisions but providing checks on the use of executive power remains elusive.

Latin American bureaucracies are often ineffective, inefficient and corrupt. As a result the quality of judicial, health and education systems, all essential to the functioning of middle income market economies with rising standards of living, can be abysmally low.

Yet it is these bureaucracies that are now being charged with the task of regulating Latin America's new market economies, as social pressure mounts on governments. The failure of banking regulators to prevent banking crises suggests governments will have difficulty in fulfilling their responsibilities.

Difficult, however, does not mean impossible. Mr Enrique Iglesias, the president of the InterAmerican Development Bank, says he does "not think social tensions will become unmanageable. They never have in the past". In Chile, he notes, the unemployment rate reached 27 per cent in the mid-1980s; now it is below 5 per cent. "The policies produce results," he says.

· OBSERVER ·

A banker of substance

■ HSBC Holdings, the UK's biggest banking group, has recruited a non-executive director who knows a bit about banking. Carl Reichardt, one of America's most successful bankers joined the board last Friday.

He is the man who masterminded Wells Fargo's 1986 acquisition of Crocker National from Midland Bank – a textbook example of how to make money out of a big bank merger. During his 11 years running Wells Fargo it grew into one of the most profitable US banks. Warren Buffett, the canny US investor, became Wells Fargo's biggest shareholder because he liked what Reichardt did.

At a time when US banks either "fish or cut bait", Wells Fargo is definitely one of those banks which intends to go fishing. Nevertheless, despite its recent $11.6bn bid for First Interstate, it is still only number eight in the US.

Although Reichardt retired as chairman and chief executive of Wells Fargo at the end of 1994, he remains a director of the bank which has had an increasingly close business alliance with HSBC since 1989. A year ago they formed Wells Fargo HSBC Trade Bank and linked their cash dispensers.

Will Reichardt's presence on the HSBC board strengthen the ties? It's an intriguing thought. He is certainly well placed to advise on two key questions facing HSBC. Its US bank, Marine Midland, is not big enough. However, if HSBC really wants to become a global bank it cannot afford to follow NatWest and desert the US market. It needs to get bigger, and when it comes to making US acquisitions Reichardt is the best.

Reichardt also knows where to find a good banker should HSBC decide to look outside to find an overdue replacement for HSBC chairman Sir Willy Purves. Reichardt's men now occupy the top posts at BankAmerica, Bankers Trust, First Bank System and Australia's Westpac. Indeed, one could even envisage Wells Fargo and HSBC getting into bed together one day.

Having a big bank on the US west coast would be a perfect fit for HSBC.

What better way of satisfying Wells Fargo's craving for size and the question-mark hanging over HSBC's management succession?

Blockbuster II

■ Are small, used-car dealers in the US about to go the way of independent retailers in many other areas, wiped out by the spreading might of big retail chains?

That is certainly the hope of Steven Berrard, who until last week was chief executive of Blockbuster Entertainment, the giant of the video rental business.

Berrard has now swapped the top job at Blockbuster (total stores: 4,500) for that at AutoNation USA (total stores: none.) AutoNation is just one of a rash of generic-sounding groups to spring up in the US in recent months, among them CarMax, CarChoice and Car America. All aim to bring the superstore concept to the used car business.

Berrard seems to have as good a chance of succeeding as any. After joining the four-year-old Blockbuster in 1987, he acted as right-hand-man to founder Wayne Huizenga, overseeing the rapid build-up of the video chain.

After Huizenga sold the company to Viacom, Berrard stayed on to handle the integration with Sumner Redstone's entertainment group. The two of them are teaming up once again to see if they can turn AutoNation into another blockbuster.

Self serve Morbo

■ In Britain Bovine Spongiform Encephalopathy may be known as mad cow disease. But in Italy it is called "morbo mucca pazza", and Italy's Luigi Cremonini stands to benefit from it.

Cremonini, king of Italy's meat trade, chose the day of the beef scare to announce that he was selling Burghy, his chain of 80 burger bars, to McDonald's. Not only does he stand to make close to $200m on the deal, but he has also won exclusive rights to supply meat to the US fast food giant in Italy. As Italy has suspended British beef imports, Cremonini seems to be onto a winner.

In the drink

■ Bahamians were bemused the other day to see about 100 boisterous American students strolling the streets of Nassau, the capital. They were dressed in life jackets, walking uncertainly and sipping from bottles in brown paper bags.

The students had been on a "booze cruise," but unfortunately the boat sank in 12ft of water. No injuries, but the shaken students sought to calm their nerves as best they could, with some liquid refreshment. A plaintive protest from the boat's first mate: "Some of them didn't want to leave the sunken boat – but when they did they emptied the bar".

Sunk without trace

■ Eric Ellen, head of the International Chamber of Commerce's commercial crime unit, recently discovered for sale in a Taiwanese bookshop pirate copies of his own authoritative tome, *International Maritime Fraud*.

Nothing like being ripped off to concentrate the mind.

The Financial Times

100 years ago

Income tax in France

Paris: - In anticipation of the debate on the Budget Committee's motion for the rejection of the Government's proposals for an income-tax, the Chamber to-day was crowded. M. Jaurès, Socialist, supported the Government scheme, which, he said, was inspired by a democratic spirit, and would relieve the labourer and the farmer. He declared that an income-tax ought to have been imposed 20 years ago. "We shall march on towards our goal," he said, "at the same time respecting the present antiquated social system."

50 years ago

International Bank salaries

The salaries of executive directors of the International Bank and Monetary Fund set up under the Bretton Woods agreement have been fixed on American suggestion at £4,250 a year, tax-free. The Boards of the World Bank and Fund, including alternate directors, will apparently be swollen to the number of 48. Though, after much pressing, the Americans have agreed that directors should be paid by the month, and only for months when they are actually working, expenditure on these 48 World Bankers' salaries will, nevertheless, remain enormous.

FINANCIAL TIMES
Monday March 25 1996

Conciliatory China-Taiwan talks urged after historic presidential election

Summit may follow Lee victory

By Tony Walker in Beijing, Laura Tyson in Taipei and John Ridding in Hong Kong

China and Taiwan raised the prospect yesterday of a high-level bilateral summit following Taiwan's first democratic presidential election at the weekend, in which the Nationalist party's Mr Lee Teng-hui retained his post with 54 per cent of the vote.

In a relatively restrained reaction following weeks of invective and war games aimed at intimidating Taiwanese voters, Beijing appeared anxious to signal that it was now up to Taiwan's leaders to make conciliatory moves towards resuming cross-strait talks broken off last June, following China's anger over President Lee's visit to the US.

"Our policy towards Taiwan has not changed and that is peaceful reunification," said Mr Shen Guofang, foreign ministry spokesman. "The two sides should realise a high-level summit between their leaders."

As pressure mounted on the first democratically elected leader in Chinese history to defuse a military stand-off between his small island state and the world's most populous country, Taiwan's Premier Lien Chan said Taipei wanted early negotiations to pave the way for a summit.

Chinese media pointedly avoided direct comment on the election result. The main state television news made no reference to Mr Lee or his election victory.

People's Daily, the Communist Party newspaper, twisted itself into a knot in its description of the election as "the activity by which a change of Taiwan region's leader was engendered".

Western officials in Beijing said China was now likely to "wait and see" what moves Mr Lee would make in the election's aftermath. It would probably calm its attacks on the Taiwanese leader for the time being.

But any indication Mr Lee was promoting greater independence for Taiwan would lead to a revival of China's bellicose campaign, including military manoeuvres.

On Saturday, Chinese media described Mr Lee as an American "puppet" who was leading his people to an "abyss of misery". He was also a "dictator" destined for the "dustbin of history". But yesterday, rhetoric had noticeably softened, perhaps in recognition that China may have to do business with Mr Lee.

China regards Taiwan as a renegade province and has said it will not rest until it secures its reunification with the mainland. President Lee has said he, too, wants reunification and is against independence, but Beijing has made it clear it does not believe him.

Beijing continued its criticism at the weekend of the US decision to deploy two aircraft carrier tasks forces off Taiwan the biggest show of US naval strength in the region since the Vietnam war. Mr Shen described the action as "unwise".

China believes the US deployment encourages independence tendencies on Taiwan and undermines its reunification drive.

In Hong Kong, President Lee's sweeping victory prompted a cautious reaction with politicians and commentators urging dialogue between China and Taiwan and stressing the need to defuse tensions between Washington and Beijing.

Beijing to axe Hong Kong legislature

China is pushing ahead with plans to scrap Hong Kong's elected legislature, prompting Mr Chris Patten, the colony's governor, to describe yesterday as "a black day for democracy", writes John Ridding in Hong Kong.

The Beijing-appointed preparatory committee, which is overseeing Hong Kong's handover to Chinese sovereignty next year, adopted a resolution to replace the territory's legislative council, Legco, with a provisional legislature.

Mr Patten said the Chinese government-appointed body had voted to tear down a legislature which was freely, fairly and openly elected.

Turkey softens line in Aegean row

Yilmaz will not rule out possibility of arbitration over disputed islands

By John Barham in Ankara and Bruce Clark in London

Mr Mesut Yilmaz, Turkey's new prime minister, yesterday announced an important shift in policy towards Greece by saying he would not rule out the idea of referring disputes in the Aegean to international arbitration.

His statement, at his first news conference since taking office three weeks ago, follows behind-the-scenes efforts by Germany, the UK and other European Union members to avoid a fiasco at a meeting of Turkish and EU ministers in Brussels today.

Mr Yilmaz stressed that Turkey wanted disputes in the Aegean to be "settled by peaceful means in accordance with international law".

This formula appeared to fulfil the two principal terms set by Greece for lifting its veto on implementation of a Turkish-EU customs agreement – that Ankara pledge not to use force, and to respect international treaties.

These have been the main assurances sought by Athens since a naval showdown in January, when both countries sent warships to an uninhabited island in the Aegean, and the then Turkish prime minister, Mrs Tansu Çiller, said there were many islets whose status could become a cause for war.

However, Athens would ideally like Turkey to provide an explicit assurance that it accepts the Italian-Turkish treaty of 1932, and the post-war treaty of 1947, which underpin Greece's possession of the Dodecanese islands.

While accepting the possibility of legal arbitration, an approach favoured by Athens, Mr Yilmaz also reiterated Turkey's demand for "negotiations without preconditions" on all Aegean questions – something Greece has up to now rejected.

The stress on comprehensive talks is likely to be unwelcome to Greece, but the prime minister's reference to "peaceful means" and "international law" will make it harder for Athens to justify further obstruction of the Ecu375m ($468m) financial package the EU has promised Ankara.

In a softening of Turkey's attitude to the idea of arbitration by the International Court of Justice in the Hague, Mr Yilmaz said: "Turkey does not rule out from the outset any method based on mutual acceptance. We have no prejudices in this respect. We are prepared to discuss with goodwill appropriate third-party methods of settlement."

This was the first public pronouncement of a somewhat more flexible position which the Turkish foreign ministry had laid out privately to its west European counterparts in recent weeks.

Mr Yilmaz had hinted at a somewhat softer line towards Greece last week when he responded positively to a suggestion from Mr Theodoros Pangalos, Greek foreign minister, that both countries reduce their firepower in the Aegean.

The Turkish premier said yesterday that Greece and Turkey could hold preliminary talks to establish confidence-building measures and discuss all their outstanding disputes without prejudicing the outcome of an independent ruling.

British dairy herd threat

Continued from Page 1

have to address the concerns of Britain's trading partners, particularly those in the EU, who have banned the import of British beef. With the exception of Ireland and Denmark, all other member states banned British beef after the announcement.

A temporary ban on imports, while stricter controls were put in place, would enable the European Commission to avoid a direct confrontation with EU countries which are expected to resist lifting the bans until further steps have been taken to reduce the risk of BSE.

German poll results give government hope for future

Continued from Page 1

seek a coalition with the FDP, which has been in opposition in Stuttgart for 30 years. Contrary to opinion polls, the far-right Republican party re-entered the Baden-Württemberg state parliament, although with a reduced share of the vote: about 9 per cent, against 10.9 per cent four years ago.

The coalition of SPD and FDP is expected to continue in office in Rhineland-Palatinate.

Yesterday's results will not change the overall majority of SPD-led state governments in the Bundesrat, the second chamber in Bonn. But the probable change of coalition in Stuttgart will reduce the SPD's scope to block federal government legislation in the second chamber. A coalition in Kiel could cause Schleswig-Holstein to abstain more frequently in Bundesrat votes.

With only one state election due between now and the general election in the autumn of 1998 – in the city-state of Hamburg – the federal government is now expected to push ahead more forcefully with tackling Germany's unemployment crisis that has put 4.27m – or one in nine – of the labour force on unemployment benefits.

EU attacks UK minister

Continued from Page 1

on the issue today, pointed out that the Commission would have to act "without the benefit of results of additional research on the matter".

He said his proposals would take into account the results of the meeting of EU scientific experts on Friday and the "interests and concerns of consumers and producers alike".

Mr Fischler added that the UK government and the Commission had "a joint interest in ensuring that consumers are confident of the safety and high quality of the beef they consume".

THE LEX COLUMN

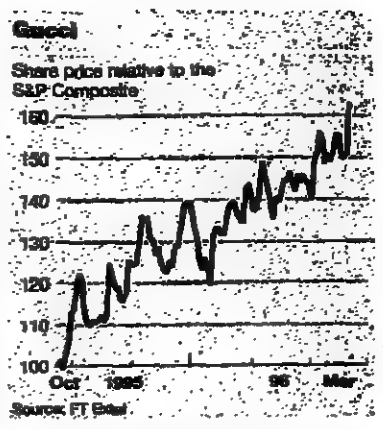
Securing Eurotunnel's future

Morgan Stanley has put forward an ingenious scheme for refinancing Eurotunnel's £8bn debts. Eurotunnel might just be able to raise money by issuing bonds secured on the revenue it collects from those travelling through its tunnel. Such a "securitisation" scheme is certainly more likely to fly than a conventional equity or bond issue. Eurotunnel is too financially weak to go to the capital markets. But bonds issued by a special ring-fenced vehicle, guaranteed to receive the first slice of Eurotunnel's revenues, might achieve an investment-grade credit rating. The fact that GPA, the financially-challenged Irish aircraft leasing group, has just raised $4bn in this way suggests it is not beyond the bounds of possibility.

Only a portion of Eurotunnel's revenue could be siphoned off into the special vehicle, otherwise the group would not have enough cash to cover operating costs. The amount of spare cash would grow as usage of the tunnel increased. But even if wheezes like zero-coupon bonds were employed, it would be possible to repay only part of Eurotunnel's debts in this way. The banks would have to refinance what remained, probably by converting debt into equity.

Such a scheme should appeal to Eurotunnel's banks. It is the only mechanism so far mooted that holds out a reasonable prospect of repaying some of their debt upfront. But securitisation would do nothing for shareholders: not only would Eurotunnel lose part of its revenue stream; shareholders would end up being massively diluted in a debt-for-equity swap. That may be why Eurotunnel is at present giving the idea short shrift. Perhaps Morgan Stanley's next port of call should be the banks.

Gucci



Shares in Gucci, the luxury goods company, have certainly come into fashion. They are already double the issue price of six months ago, buoyed by last year's 370 per cent rise in profits. Nonetheless, the decision by the Arab investment group Investcorp to cash in its remaining 53 per cent stake in the business later this month sends a strong signal that the best is over.

Gucci's profits have had a significant boost from two factors. Demand for luxury goods has withstood sluggish western markets, because of strong growth in Asia. Meanwhile, Gucci has undergone a substantial restructuring under its new management and it is still in a recovery phase. With another successful fashion show under its belt this month, it looks well positioned to outpace the earnings growth achieved by most competitors. In the circumstances, it may seem surprising that Investcorp wants to sell – and the investment group has been in quite a hurry. It had to get waivers from Morgan Stanley and the Amsterdam stock exchange to sell before pre-agreed dates.

However, with the shares trading on a prospective price-earnings ratio of 22, based on forecasts for the year to January 1998, the good news is already in the price. Besides, the lira has been strengthening and the yen weakening, which is bad news for a company with a lot of Italian production costs and Japanese customers. Fashion may be a growth industry, but its risks stretch from currency volatility to the moods of fashion designers and the fickle tastes of wealthy buyers. And without the restraining influence of Investcorp on the management, these risks can only increase.

Gilts

The mounting pressure on the British government to stop the spread of bovine spongiform encephalopathy (BSE) makes the slaughter of at least some of the UK's 11m beef and dairy cows look increasingly likely. Mr Douglas Hogg, the agriculture minister, revealed yesterday that the government is considering slaughtering those over 30 months old – some 4.5m cows. Since most of these are dairy, and the UK is almost self-sufficient in milk, this option would have a dramatic impact on milk supply.

This threat is likely to cause gilt prices to fall further. So far, the gilts market has mainly been concerned about the implications of the BSE crisis for the already high public sector borrowing requirement. The cost of slaughter and compensation to farmers could add billions of pounds to the PSBR, which would have to be funded by issuing more gilts. But targetting dairy cows would particularly hurt the country's trade balance and gross domestic product, because of the need to replace the domestic milk supply with imports. One economist puts the potential increase in the trade deficit at £6bn. Furthermore, while the fall in beef prices would damp inflation, this would be outweighed by the inflationary effect of a milk shortage on milk prices. Weaker growth alone is not negative for gilts, but it would be if coupled with higher inflation.

On top of all this come the political implications of the crisis, the handling of which has not covered the Conservative government in glory, in the run up to next year's general election. For a market already nervous about a Labour party victory, this is further cause for concern.

Inchcape

Inchcape is attempting to draw a line below its troubles. The departure of chief executive Mr Charles Mackay and the dividend cut expected today are both sensible measures. The dividend had become unsustainable, and to struggle on would have been to court further disaster. As for Mr Mackay, he is paying the price for the company's problems, even though these were not all of the management's own making. As the world's largest independent distributor of Japanese cars, Inchcape has been battered by the combined impact of a strong yen and weak car market. Still, the company's difficulties were compounded by management's slow reactions to its problems.

The subsequent restructuring, announced last September, should leave Mr Mackay's internal replacement, Mr Philip Cushing, and recently arrived chairman Sir Colin Marshall, in a stronger position. But the question is whether the company's strategic plan, to be announced today, will really be enough to turn the business around. A flotation of Bain Hogg, its insurance broking arm, looks desirable, as does the effort, already started, to diversify its car distribution business. But it will be difficult to change the fundamental nature of a low margin business. This means Inchcape's high rating as a recovery stock looks hard to justify. The dividend cut could shake out further sellers among yield funds, who will join the ranks of the index-trackers who deserted the stock when it was ousted from the FT-SE 100 index. The test for the new management will be whether their vision of Inchcape's future succeeds in attracting new investors.

FT WEATHER GUIDE

Europe today

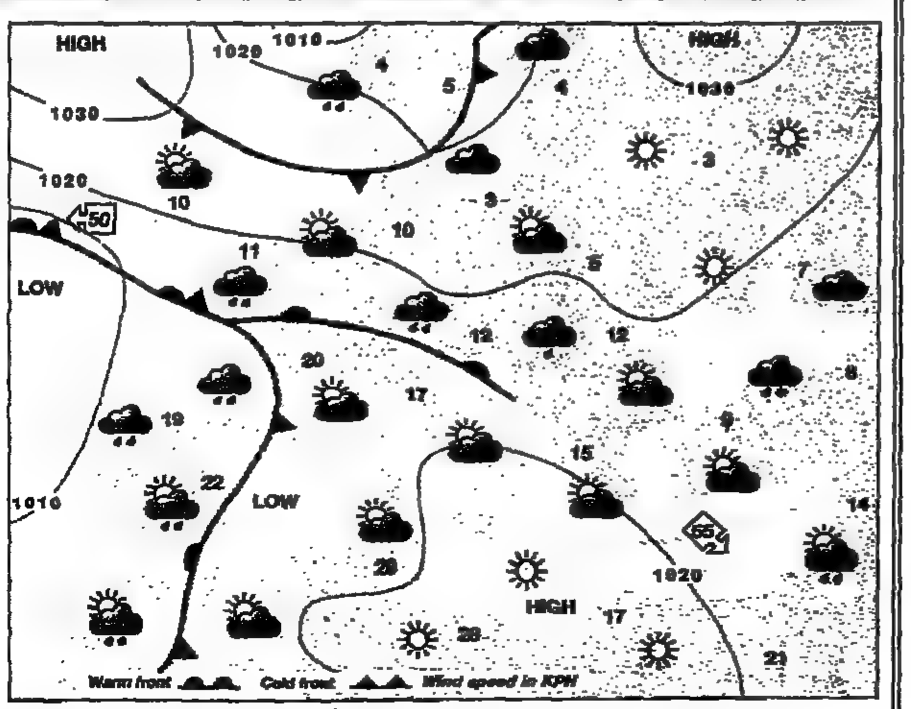
A developing frontal disturbance will bring rain to the Channel region. Southern France will have some sun and pleasantly warm afternoon temperatures. Portugal and western Spain will have numerous showers and some thunderstorms are likely as well.

After a long cloudy period, Holland and northern Germany will have some clear skies. The Alpine countries will continue to have cloudy intervals and in Switzerland there may be some drizzle.

South-eastern Poland, Slovakia, western Romania and Serbia will be cloudy with some light rain. Italy and the Adriatic coast will have sunny spells and afternoon temperatures ranging from 17C to 21C. European Russia will continue sunny, but rather chilly.

Five-day forecast

On Tuesday and Wednesday low pressure over the Norwegian Sea will draw dry, polar air southwards into western Europe. As a result, the fog and low cloud over the North Sea region will dissipate. The southern coast of Norway will have considerable precipitation. Sun will return to central Europe. Italy and the Balkans will become unsettled later in the week.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

		Maximum Celsius
Abu Dhabi	fair	33
Accra	fair	31
Algiers	fair	26
Amsterdam	fair	10
Athens	fair	15
Atlanta	cloudy	21
B. Aires	sun	30
B.ham	cloudy	9
Bangkok	fair	[illegible]
Barcelona	fair	19
Beijing	sun	12
Belfast	fair	9
Belgrade	drzzl	16
Berlin	fair	9
Bermuda	fair	20
Bogota	rain	20
Bombay	sun	35
Brussels	cloudy	14
Budapest	cloudy	14
C.hagen	cloudy	6
Cairo	shower	18
Cape Town	fair	24
Caracas	fair	28
Cardiff	cloudy	11
Casablanca	shower	20
Chicago	fair	4
Cologne	cloudy	15
Dakar	sun	26
Dallas	sun	19
Delhi	sun	31
Dubai	fair	32
Dublin	cloudy	9
Dubrovnik	fair	16
Edinburgh	fair	7
Faro	shower	19
Frankfurt	cloudy	15
Geneva	drzzl	18
Gibraltar	shower	20
Glasgow	fair	9
Hamburg	fair	[illegible]
Helsinki	sun	1
Hong Kong	cloudy	23
Honolulu	fair	26
Istanbul	fair	[illegible]
Jakarta	thund	32
Jersey	rain	12
Karachi	sun	34
Kuwait	sun	27
L. Angeles	fair	19
Las Palmas	fair	24
Lima	cloudy	27
Lisbon	thund	19
London	cloudy	12
Lux.bourg	cloudy	13
Lyon	drzzl	20
Madeira	fair	19
Madrid	cloudy	19
Majorca	fair	22
Malta	sun	19
Manchester	cloudy	10
Manila	sun	34
Melbourne	fair	28
Mexico City	sun	22
Miami	fair	28
Milan	fair	18
Montreal	rain	6
Moscow	sun	5
Munich	cloudy	14
Nairobi	fair	29
Naples	fair	19
Nassau	fair	27
New York	fair	14
Nice	fair	18
Nicosia	fair	15
Oslo	fair	2
Paris	drzzl	18
Perth	sun	27
Prague	cloudy	10
Rangoon	sun	34
Reykjavik	fair	1
Rio	thund	27
Rome	fair	20
S. Frsco	fair	14
Seoul	sun	13
Singapore	thund	31
Stockholm	cloudy	4
Strasbourg	cloudy	17
Sydney	shower	23
Tangier	shower	20
Tel Aviv	rain	14
Tokyo	fair	17
Toronto	cloudy	6
Vancouver	fair	12
Venice	fair	16
Vienna	cloudy	13
Warsaw	cloudy	4
Washington	fair	20
Wellington	fair	17
Winnipeg	sun	-12
Zurich	drzzl	18

هكذا من الأصل

FINANCIAL TIMES
COMPANIES & MARKETS

Monday March 25 1996

Easdaq paves way for September launch

Planned Europe-wide stock market passes capital threshold

By Richard Gourlay in London

Easdaq, the proposed Europe-wide stock market for high-growth companies, has raised enough capital to gain recognition as an authorised exchange, paving the way for a late September launch.

The BFr200m ($6.6m) investment by US and European investors takes Easdaq a step closer to its goal of becoming Europe's equivalent of Nasdaq, the second largest stock market in North America.

The launch of a new market could eventually pose a challenge to the London Stock Exchange, already under pressure from Tradepoint, the electronic market, and it comes amid efforts from at least three exchanges in Continental Europe to set up small company markets.

Last week, trading began in the first company to be floated on the French Nouveau Marché, which was launched after London said it was setting up the Alternative Investment Market.

Mr Jacques Putzeys, Easdaq's chief executive, said confirmation of the capital injection from the 15 investors meant it could now be recognised by regulatory authorities in Belgium, where it will be registered. Under the EU's Investment Services Directive, an exchange recognised in one country will be recognised in all 15 EU member states.

Mr Putzeys said recognition meant Easdaq could step up its drive to attract dynamic private companies to its market and to try to persuade the 79 European companies quoted on Nasdaq to seek a dual listing on the new exchange.

Easdaq's latest investors include Equitable Life, one of the UK's largest life assurance companies, which put in $250,000. The company, which has a number of venture capital funds, said it wanted Easdaq to provide the kind of exit route that Nasdaq has given US venture capital investors in high-growth companies.

Mr Ronald Cohen, chairman of Apax Partners, the venture capital group, and an Easdaq board member, said investment from groups such as ING Barings, which put in $1m, Unibank of Denmark and a arm of Banque Populaire of France, showed international investors wanted an active trading role on the market.

The fundraising follows clarification of the quotation and and settlement mechanisms Easdaq will use. The International Securities Market Association, which is developing the quotation system, will enhance its Trax real-time confirmation system to fulfil Easdaq's regulatory requirements. Earlier this month, Intersettle, which is owned by the Swiss banks, was awarded the contract to handle settlement.

Mr Putzeys says Easdaq hopes to have 50 quoted companies within a year of launch.

He expects to raise the balance of the Ecu10m ($12.5m) needed to cover start-up costs and losses by the end of June.

Nasdaq, which is already an investor in the first round of financing, says it supports Easdaq and is considering whether to provide more equity in Easdaq's final fundraising.

Mackay to go in Inchcape shake-up

By Patrick Harverson in London

Inchcape will today announce the departure of Mr Charles Mackay, chief executive, in a shake-up that will see the international marketing and services group float its insurance broking subsidiary and diversify the core motor dealership business while cutting its dividend.

Mr Mackay, who is to be replaced by Mr Philip Cushing, the 45-year-old group managing director, is paying the price for the group's poor recent performance, which culminated in its shares being dropped from the FT-SE 100 index last year. On Friday, the shares closed at 262p, against a high of more than 600p three years ago.

The changes will be unveiled by Sir Colin Marshall, the former head of British Airways who took over as Inchcape's non-executive chairman in January and who has been conducting a strategic review of the group's businesses.

The extent of the problems facing the group will be underlined by today's annual results, which are expected to show that restructuring charges of more than £110m lowered pre-tax profits last year to £20m-£30m ($30.6m-$45.9m). In 1994, pre-tax profits were £228m. The 15p-a-share dividend is expected to be cut sharply in the wake of the results.

Although Inchcape would not comment on today's announcements, it is believed to be ready to outline plans to float a majority stake in Bain Hogg, the insurance broker. It tried to find a trade buyer for the business last year but could not agree a price with any potential purchaser.

Another result of Sir Colin's review is Inchcape's plan to broaden its car distribution business by adding marques such as Land Rover, Jaguar and Volvo to its range. Until now the dealerships have focused on Japanese cars, primarily Toyota, but in recent years the business has been hit hard by the strength of the yen, which has made Japanese-badged cars more expensive than European rivals, and weakening consumer demand.

Mr Mackay's departure after five years at the helm is expected to cost Inchcape about £800,000. He is on a two-year rolling contract and last year was paid a total package of £461,000, of which £380,000 was his basic salary.

His successor, Mr Cushing, joined Inchcape six years ago from Norton Opax, where he was chief executive of the print packaging company's international operations.

Lex, Page 16

Tradepoint to double coverage of UK equities

By George Graham, Banking Correspondent

Tradepoint, the investment exchange which last year broke the London Stock Exchange's monopoly on trading in UK shares, is to double the number of equities that can be bought and sold on its electronic system.

It will announce today an expansion of its market to more than 900 shares, including virtually all the constituents of the FT-SE Actuaries All-Share Index.

"It has always been our plan to increase the number of UK equities tradeable on our exchange. With trading volumes growing steadily and our participants increasingly using this new way of trading in the UK, we are now able to respond to market requests to broaden the range," said Mr Stephen Wilson, executive director of Tradepoint.

The Stock Exchange board last week endorsed plans to launch a similar order-driven electronic market next year. This will initially cover only FT-SE 100 stocks, though it could later be extended.

Although a handful of equities dealers argue that an order book is best suited to the least liquid stocks at the bottom end of the market, the bulk of the market remains sceptical about whether it will be possible to trade illiquid stocks by this method.

Turnover on Tradepoint's system reached £32m ($49m) last month – a mere flea bite to the Stock Exchange and still far short of break-even.

The company is seeking to raise £8.5m to carry on its development through a placing with institutional investors and a listing on the Stock Exchange's Alternative Investment Market.

Philip Coggan reports on concerns that UK groups' performance has peaked

Good times may not have much further to roll

Sighs of relief can be heard around the City. The UK results season is well into its stride and so far it has been free of nasty surprises.

Earlier in the year, the markets began to get alarmed about the prospects for the season when a series of companies, notably in the retailing sector, issued profits warnings. But it seems that a combination of statements from the corporate sector and warnings from economists that UK gross domestic product growth was slowing persuaded analysts to reduce their forecasts to realistic levels.

"There was a big adjustment process in September and October," says Mr Mark Tinker of James Capel. His figures, based on a sample of 101 large companies, show that 55 have reported figures better than the consensus forecast and 34 worse.

However, the overall numbers may hide a less encouraging trend at the sectoral level. Mr Paul Walton, UK strategist at Goldman Sachs, says that financial companies have performed much better than industrials. Goldman figures showed that while profits from FT-SE Actuaries All-Share companies were 2 per cent better than expected, that was entirely due to the financial sector, where the figures were 7 per cent ahead of forecasts. Non-financial companies produced profits which were 1 per cent worse than expectations.

A few leading companies have disappointed investors. Unilever, the Anglo-Dutch consumer goods group, reported sluggish volume growth and made a cautious statement about 1996. "There is little evidence yet of any noticeable improvement in European trading conditions," said Sir Michael Perry, chairman of Unilever's UK arm.

Nevertheless, James Capel's Mr Tinker says overall UK earnings are likely to have grown 11 per cent in 1995 thanks, in part, to the corporate sector's effort to improve margins. "Everyone has been focusing on demand not being as strong as they thought, but costs have come in lower than expected."

Pressure on margins had been particularly acute in the first part of 1995 as companies struggled to cope with the sharp rise in raw materials prices in 1994. But that effect has faded and, as last week's subdued average earnings numbers showed, companies have yet to experience cost pressures on the wages front.

Companies have continued to hack away at their cost base, as shown by the large number taking exceptional charges against their profits. "The level of exceptionals being reported is back at the same level as in 1992, at the end of the recession," says Mr George Hodgson, UK equity strategist at SBC Warburg.

Some of these costs relate to the restructuring which followed the 1995 takeover spree. And takeovers are scheduled to continue, judging by the rash of statements of intention from UK companies, including TI and Williams Holdings.

"You would expect more acquisition activity at this stage of the economic cycle," says Mr Tim Brown, UK market strategist at UBS. "Profits are quite high and the balance sheets are strong. But those factors are overshadowed by the desire of companies to make acquisitions before a change of government, which might make takeovers more difficult."

Investors worry monetary easing will raise inflationary pressures

Share buybacks have been less common than takeovers, partly because the UK system does not make them tax-efficient. But Barclays Bank followed its recent results with a purchase programme, and Guinness weighed in with a £460m ($704m) programme on Friday. There has been speculation that British Steel and Reuters will follow suit.

The strength of corporate balance sheets has allowed dividend growth to be in double digits, slightly better than most had been forecasting. "There is a fashion in the market for shareholder value," says UBS's Mr Brown, "and one way for a management to emphasise that they believe in it is to increase the dividend a fraction more than people had pencilled in."

So if profit growth has been solid, dividends have been strong and further takeovers are expected, why is the stock market so sluggish, with the FT-SE 100 index roughly where it started the year? A significant reason has been the rise in international bond yields, as investors worry that global monetary easing will lead to inflationary pressures.

But Mr Walton of Goldman Sachs thinks the market may sense that the UK is starting to see the end of the good times.

"Companies are commenting on how profitable they are, which means they are hitting peak margins," he says.

The prospect of a Labour government taking office within a year or so – and the potential introduction of measures such as the minimum wage or dividend tax reform – might bring an end to the cycle of profit improvement.

By the time companies report on the current year in spring 1997, the news may not be so good.

INSIDE

Eurotunnel

Morgan Stanley, the US investment bank, has proposed to Eurotunnel a radical scheme for raising funds by issuing bonds secured on a portion of the cash-strapped Channel tunnel operator's revenues. Eurotunnel is understood to have turned down Morgan Stanley's "securitisation" scheme but it is believed not to have rejected securitisation as an idea. Page 18

Glencore

Glencore, the Swiss group which is one of the world's biggest international traders, is expecting to raise $300m-$414m by selling its US aluminium business, Century Aluminium, through an initial public offering to international investors. Some 20m shares in Century are being sold by Glencore and the indicative pricing range is $15 to $18. Page 19

City People

Hermes Investment Management, which oversees the assets of the UK's largest pension scheme, has had about 270 applications for the post of corporate troubleshooter. "It touched a nerve out there," says Mr Alistair Ross Goobey (above), chief executive, of the response to his group's announcement that it was seeking someone to help underperforming companies rethink their strategy. Page 21

Fund Management

Investment consultants say the vast majority of "specialist" mandates – mandates to manage a single class of assets – are going to bond fund managers. But their performance claims can take some unravelling – it's easy to say you are the most handsome guy in town when you are placing yourself next to, say, a group of squat, balding competitors. Page 21

Gazprom disappointed at offers for 9% stake

By Robert Corzine in London

Gazprom, Russia's richest company and the world's biggest natural gas producer, is struggling to find foreign buyers for the 9 per cent stake it has put up for sale.

In an interview, Mr Rem Vykharev, chairman, said the proposed sale was "going badly" because the prices being offered by overseas investors were too low.

Various proposals were still being accepted by Kleinwort Benson, the UK investment bank advising on the share sale, "but we're not letting them sell the shares".

Gazprom is planning the sale to finance plans to expand export capacity to western Europe.

Mr Vykharev, who is in New York today to meet potential investors, said: "We'll keep talking. But we're not rushing to sell the shares. They [the shares] won't vanish anywhere."

Gazprom's advisers believe US-based institutional investors will play a prominent role in any sale of shares or global depositary receipts.

Although the advisers say an institutional sale remains an option, more effort is currently being devoted to finding a trade buyer to participate in a convertible bond offering. This would help to put a market value on Gazprom, which controls about a fifth of the world's natural gas reserves and is the single largest Russian export earner. The convertible bond would also be linked to a commercial agreement between Gazprom and a western partner.

The company, in which the Russian government has a 40 per cent stake, has a lower market capitalisation than Lukoil, Russia's largest oil company, although Gazprom's production is ten times bigger.

A number of mainly western European companies have been seen as possible buyers of Gazprom convertible bonds or shares. These included British Gas, Snam of Italy, Ruhrgas of Germany and Gaz de France, the state-owned monopoly.

But some potential trade buyers are known to be worried about the lack of reliable financial information about Gazprom, whose far-flung activities in Russia and the former Soviet Union range from gas development and transportation to farming, aviation and space communications. Gazprom is also increasingly active in western Europe, where it is investing in gas pipeline and marketing projects, including a 10 per cent stake in the planned £500m ($765m) inter-connector to link the British and continental European gas grids.

They are also concerned about the high valuation which Gazprom executives say the company deserves. Although its hydrocarbon reserves are greater than the combined total of Shell and Exxon, the two largest multinational energy groups, western gas industry executives say there are too many political and economic uncertainties about the company to warrant a high valuation.

Battersea scheme seeks listing

By Simon London
Property Correspondent

The owners of Battersea Power Station in London are hoping to gain a stock market listing by reversing the planned £200m ($306m) leisure development into a quoted property company.

Mr George Hwang and his brother, Victor, the Hong Kong property investors who own the site, have held talks with small property groups.

Negotiations with Southend Properties were advanced when the company, under pressure from its shareholders to change direction, opted for an alternative reverse takeover.

The Hwang brothers plan to turn the power station, which has been empty for 13 years, into one of the UK's largest leisure developments.

A stock market listing would allow them to raise equity capital from outside investors and raise the profile of the project.

A consortium including BAA, the airports operator, Gordon Group, the US property investor, and Really Useful Group, the entertainment company run by Mr Andrew Lloyd Webber, the composer, are to finance a feasibility study.

But it is unclear whether all of them will back the final scheme, including a 32-screen cinema, 1m sq ft of shops and other leisure facilities.

Prominent investors including Trocadero, which owns the leisure development in Piccadilly Circus, have declined to invest in the project.

The location of the site, in a mainly residential area to the south west of central London, is seen as a draw-back.

The Hwangs plan to run a rail shuttle between Victoria and Clapham Junction, two of the capital's busiest stations, to improve access for visitors.

The brothers took control of the landmark art deco power station earlier this year.

They are also planning a commercial property development on surrounding land.

STATISTICS

COMPANIES IN THIS ISSUE

Plan to securitise Eurotunnel debt on part of revenues

By Hugo Dixon

Morgan Stanley, the US investment bank, has proposed to Eurotunnel a radical scheme for raising funds by issuing bonds secured on a portion of the cash-strapped channel tunnel operator's revenues.

The "securitisation" scheme was recently put to Sir Alastair Morton, Eurotunnel's co-chairman, as a way to repay part of the group's massive £8bn in debts.

Eurotunnel, which last year suspended interest payments on its debt, is currently working on cash flow forecasts as a prelude to thrashing out a refinancing scheme with its banks.

Eurotunnel is understood to have turned down Morgan Stanley's scheme on the grounds that it is premature. However, it is believed not to have completely rejected securitisation as an idea. Over the past year, Eurotunnel has considered a multitude of options for refinancing its debts – including rescheduling loans, debt write-offs, government guarantees and debt-for-equity swaps.

Securitisation is a complex financing technique, which was developed in the US and has spread to Europe. Earlier this month, Morgan Stanley organised the sale of $4bn (£2.6bn) in bonds backed by aircraft leases for GPA, the debt-laden Irish company.

Although the technique's most common use has been in mortgage-backed bonds, securitisation has also been used to finance transport projects such as toll roads in Mexico.

The details of Morgan Stanley's proposal to Eurotunnel are not known. But securitisation typically involves creating a special financing vehicle separate from the company raising funds. A specified flow of income – from aircraft leases, mortgage payments, road tolls or the like – is assigned to the vehicle. Bonds, backed by this income flow, are then sold to investors, while the funds raised are passed to the company.

Normally, specialist insurers are paid to guarantee the bonds, allowing them to achieve a AA or AAA credit rating.

Given Eurotunnel's cash-strapped position, it is unlikely that such a scheme could be used to repay more than a portion of its debt. Another mechanism would be needed to refinance what remained.

See Lex

Cliveden to float at £30m

John Tham (left) and John Lewis, chairman, stand in front of the hotel at Cliveden

By David Blackwell

Cliveden, one of the England's finest country houses and now a luxury hotel, is to be floated next month.

The pathfinder prospectus, to be published today, shows that the hotel and country club business run at the former home of the Astor family made profits last year of £1.86m on turnover of £6.4m. Trading in the first 20 weeks of this year has been "significantly ahead" of the same period last year.

The group, which has the 4th Viscount Astor as a non-executive director, is expected to have a market valuation of about £30m. It is hoping to raise £8m through a placing with institutional investors. It is aiming to use the money to buy another hotel in which to develop further the luxury concept behind the business.

The house was home to Nancy Astor, the first woman member of parliament and renowned hostess, from her marriage in 1905 into the Astor family. The 376-acre estate and the house were given to the National Trust in 1942. When the Astors left in 1966, the Trust let it to Stanford University, which used it as a campus for European studies until the early 1980s.

Then its potential as a hotel was spotted by Mr John Tham and Mr John Lewis, who had taken the Royal Crescent in Bath from an unrated hotel to one of the best in the UK.

They acquired a long lease on the building and in 1986 launched the new business, which has since soaked up more than £8m of investment. The rent is currently £187,000 and the next review is in four years' time.

"Our intention from the outset was to make it something unique," said Mr Tham, managing director. "We were determined that Cliveden would stand apart."

He points out that Cliveden was relatively easy to convert as it was built for entertaining on a grand scale. Each bedroom had a dressing room, which proved ideal for conversion to a bathroom.

There are now 37 rooms, costing from £200 to £650 a night, and Mr Tham claims the highest achieved room rate in the UK at £245 a night.

Block bookings, far from qualifying for a discount, attract a premium of up to £7,000 a night if any company wants the privilege of having exclusive use of the building.

In addition, Mr Tham in 1991 created a country club which now has 217 memberships at £3,000 a year. He denies that the club is just another health club, again stressing the uniqueness of the facilities members enjoy – including riding and boating and access to four club rooms at £70 a night.

The company has expanded the concept with the acquisition of the 25-room Cliveden Townhouse in Chelsea, which will be fully refurbished by May. After flotation, the company will be looking for another hotel with up to 60 rooms.

Mr Tham and his fellow directors own more than 80 per cent of the shares, with most of the rest held by friends of the board. The directors will be selling some of their shares. Club members will have a chance to acquire shares at the placing price.

Beeson Gregory is sponsor and broker.

Leeds directors go for big league

Patrick Harverson charts the Yorkshire club's business aspirations

At the end of the football season last spring, the three directors of Leeds United came to the conclusion that the prominent Yorkshire club was never going to realise its full potential unless it radically altered its status as a business.

Like many British clubs, Leeds was a private company owned primarily by a small group of local businessmen and a few hundred shareholders, most of them fans.

It boasted a proud footballing past, but despite its status as one of the game's biggest names, Leeds had a chequered history as a business. Over the years it rarely made much money, even after it won the league championship and qualified for the European cup in 1992.

Yet the club's board – Mr Leslie Silver, chairman, Mr Peter Gilman, vice chairman, and Mr Bill Fotherby, managing director - believed Leeds could cash in on the business revolution that has transformed the sport in Britain at the highest level.

That revolution has seen hundreds of millions of pounds of television money pour into the game's coffers, gate receipts climb, advertising and sponsorship revenues grow, and merchandising and other commercial businesses expand sharply.

For the first time in the sport's history, the country's biggest clubs were in a position to generate large profits from the game. Leeds, which has lagged behind on the business side, was eager to jump on the bandwagon.

The club's ruling triumvirate were also aware that the stock market was slowly warming to football clubs as an investment, following strong recent performances from the publicly-quoted Manchester United and Tottenham Hotspur.

"We have taken advice that there is room for three or four more clubs on the stock market," says Mr Gilman.

Against this background, the directors decided the only way for Leeds to capitalise on football's bright future was for the club to be converted into a publicly owned company and eventually floated on the stock market.

The result was last August's creation of Leed United Holdings plc, the company in which the three directors controversially garnered a massive stake, after their holdings of special "management shares" were converted into almost 98 per cent of the new company's equity.

The next step for Leeds is to develop its merchandising, banqueting and conference operations. Last year, revenues from these and other commercial activities rose only slightly from £5.7m to £6.2m.

However, with the opening of a big new club shop and growth in catering and conferences, the directors believe revenues should climb substantially in coming years.

Leeds will also benefit greatly from a renegotiation of the Premier League's television contract next year that should see individual clubs' fees for television rights rise sharply.

Mr Gilman knows that the potential for growth is considerable. "The only area we can expand is the non-football business. If we pull it off, we will show a considerable increase in our profits."

Cup without cheer: Leeds United's Gary Kelly competes with Dwight Yorke at yesterday's Coca-Cola Cup Final at Wembley

If all goes to plan – and barring a disaster on the footballing side, such as relegation – Leeds United Holdings should be ready for flotation within the next two to three years. At which point the directors will become instant paper multi-millionaires, or in the case of the already wealthy Mr Silver, even richer multi-millionaires.

This prospect may upset the other shareholders who saw their stake in the club drastically diluted from 18 per cent to just 2.2 per cent last summer. One angry fan asks: "The directors have a duty to act in the best interest of the club as a whole, but how can they do that when three of them own a majority of the shares?"

However, says one insider: "They feel they deserved something for sticking by the club through thick and thin." Yet he admitted: "In creating a new company the three directors have potentially made themselves a fortune."

Writedown expected at Moorfield

By Simon London, Property Correspondent

Moorfield Estates, the property company which in December replaced its management with two City analysts, is expected to write down the value of its property portfolio and halve its dividend when 1995 results are announced today.

The moves reflect the desire of Mr Marc Gilbard and Mr Graham Stanley, former Goldman Sachs property analysts, to put the company on a sustainable footing.

The write-down could lead to a reduction in net assets per share of up to 20 per cent. Balance sheet gearing is expected to increase from 124 per cent to almost 150 per cent, although Moorfield is unlikely to breach its main banking covenants.

Mr Gilbard and Mr Stanley, who took over at the request of institutional shareholders in the poorly-performing company, are also preparing to appoint new stockbrokers and financial advisers.

In addition, the 15 per cent stake in Moorfield held by British Land, the property company chaired by Mr John Ritblat, is likely to be placed with institutional investors.

Microbics seeks market listing

By Motoko Rich

Microbics, a California-based water purity testing company, is to float on the London stock exchange within the next 12 months.

The group, which is relocating to southern England, has just raised $15m (£9.8m) from a private placing with UK fund managers.

Mr Tony Martin, chief executive officer and chairman, was former chief executive of Celsis, the environmental and industrial diagnostics group.

Last year Microbics considered floating on the Aim, but decided that its growth prospects would necessitate a listing on the main market. It has been a private company for more than 10 years.

هكذا من الأصل

COMPANIES AND FINANCE

Swiss group to sell Century Aluminium

By Kenneth Gooding, Mining Correspondent

Glencore, the Swiss group that is one of the world's biggest international traders, is expecting to raise $300m to $414m by selling its US aluminium business, Century Aluminium, through an initial public offering to international investors.

Century owns the Ravenswood aluminium smelter in West Virginia, together with its associated rolling mill complex, as well as 26 per cent of the Mount Holly aluminium smelter in South Carolina.

Some 20m shares in Century are being sold by Glencore and the indicative pricing range is $15 to $18. None of the cash will go to Century. However, if an underwriters' over-allotment option that could take the number of shares to 23m is exercised, then money would go to the company. Morgan Stanley and Donaldson Lufkin & Jenrette are underwriting.

The offer was first mooted in August last year but was shelved because of poor market conditions. However, a pathfinder prospectus has been distributed and the issue will be priced shortly.

In August last year, Mr Willy Strothotte, Glencore's chairman, said that, while his group's strategy was still to be involved in primary metals production, Ravenswood's downstream operations did not fit well. Investors preferred integrated aluminium businesses so smelting operations would have to be included.

"The investing public sees it as an investment in the metal, so the production capacity is an essential part of the sale," he said. "We have done a great deal to get this business straight. The assets are in excellent condition and the operations are doing well."

Ravenswood, one of the biggest multi-purpose aluminium rolling mills in North America, was at the centre of a bitter, 20-month struggle in the early 1990s between the previous management and the United Steelworkers Union. In contrast, the USW signed a 4¼-year wage pact in December 1994, six months before the deadline. The complex now employs 2,225.

Ravenswood's smelter has an annual capacity of about 175,000 tonnes, while the rolling mill complex has a 270,000-tonne capacity and produces a wide variety of high added-value products, including metal for the automotive industry and can sheet. The Mount Holly smelter, operated by Alumax, another US aluminium company, has an annual capacity of about 181,000 tonnes.

Last year, Century produced about 220,400 tonnes of aluminium and shipped 255,000 tonnes of aluminium products. Net sales totalled $748m. Net income in 1995 was $59.3m or $2.56 a share. In the years 1991-1994, net losses were $24.2m, $53.3m, $49m and $1m respectively. At end-1995 Century had accumulated debt of $7m.

Cash flow from operations was $81.8m, against a $25.2m outflow in 1994. Century expects capital expenditure of $83m over the next two years.

Profits at Telia hit by intensifying competition

By Christopher Brown-Humes in Stockholm

Tough competition in its home market and an international expansion drive hit underlying profits at Telia, Sweden's state-owned telecoms operator, last year.

Operating income fell from SKr13.2bn to SKr12.8bn ($1.9bn) as the group battled with lower prices, particularly for international and long-distance calls; with an increase in its international investments; and with an accelerated depreciation schedule for older copper cabling.

Profits after financial items were higher at SKr3.23bn, but the SKr280m rise stemmed from lower financing costs.

Mr Lars Berg, chief executive, said Telia had been hit by "intensifying competition in our home market and accelerating internationalisation of our activities".

Telia was simultaneously having to respond to fierce competition from international groups in Sweden, while investing heavily to build up Unisource, the international expansion vehicle jointly owned with the national telecoms operators of the Netherlands, Switzerland and Spain.

A number of leading international groups – including British Telecom, Cable & Wireless and France Telecom – are active in Sweden, taking advantage of one of the world's most liberalised telecoms markets.

The group's Swedish operations achieved record earnings, despite pricing pressures. Bright spots were higher traffic volumes and the continued expansion of the group's mobile phone services, where the number of subscribers rose sharply and profits doubled. However, associated companies – mainly Unisource – incurred a SKr545m deficit.

Mr Berg predicted higher earnings in 1996, saying the "extreme streamlining" of recent years, when staff numbers have fallen from 48,000 to 33,000, had placed the group in a solid financial position.

● Volvo's truck division is setting up a joint venture in Pakistan with its partner on the local market, Swedish Motor, Reuter reports from Stockholm.

Volvo Pakistan, will produce trucks at its own factory in Lahore and take responsibility for distribution of Volvo's trucks in Pakistan.

Vereinsbank forms direct banking unit

By Andrew Fisher in Munich

Bayerische Vereinsbank has entered the fast-growing German market for direct banking with an operation that it claims goes much further than competitors by offering investment advice as well as low transaction costs.

Called Advance Bank, it has a target of 25,000 customers this year and 250,000 by 2000. It starts today with capital of DM130m ($88m) and the aim of breaking even in 1999. More than DM50m has been spent on computer systems and other equipment.

Vereinsbank's move reflects German banks' efforts to lower costs and tap a wider source of customers at a time of increased pressure on profits.

Germany has a dense branch network and big banks have a relatively small share of private customer business.

Therefore, direct banks – including Commerzbank's Comdirect and Deutsche Bank's Bank 24 – hope mainly to draw customers away from savings and other regional banks.

"We have a share of less than 5 per cent in German private banking," said Mr Albrecht Schmidt, Vereinsbank's chairman.

However, the overall market is "huge", he added. "We can only gain market share with both banks [Vereinsbank and Advance Bank]."

The new bank, with an initial staff of 160, will offer a cash management account of a type previously available only to corporate customers.

This will pay 3.75 per cent interest on funds above DM2,000 and consist of a main account and up to nine subsidiary accounts for rent, mortgage, savings, insurance and other purposes.

By creating a single net balance from the surpluses and deficits on these accounts, customers will pay lower interest charges than at other banks. Mr Hans-Jürgen Raab, Advance Bank's managing director, said: "It may sound a bit boastful, but this will revolutionise the payments business and private customer savings."

Munich-based Advance Bank will have investment advisers available by telephone 15 hours a day to 10pm. Dealing charges will be half those elsewhere, with advisory charges depending on the size of accounts.

"We are the first direct bank to offer qualified investment advice," said Mr Dirk Drechsler, a director.

The bank has linked up with Feri Trust, which manages assets of the wealthy Quandt family, to give investment fund advice.

Payments transactions will be carried out 24 hours a day. Customers will also be able to withdraw up to DM3,000 a quarter free of charge from any of the 37,000 cash dispensers in Germany.

AST Research warns of sales downturn

By Louise Kehoe in San Francisco

AST Research, the struggling US manufacturer of personal computers, has warned that excess stocks of competitors' PCs in the retail market, and slow demand, will result in lower than anticipated first-quarter sales.

The warning is the latest indication of slowing growth in the US PC market. Earlier this week, Dataquest, the US market research group, said it expected growth of only 8 per cent in the US home PC market this year, down from 22 per cent in 1995 and 42 per cent in 1994.

"We have encountered excess competitor inventory in the market, overall lower demand for PCs and greater pricing pressures than originally anticipated through the first two months of the current quarter," said Mr Ian Diery, president and chief executive of AST.

The company has incurred losses for more than a year, and the slump in demand is exacerbating its problems, according to industry analysts.

The share price dropped to $5 on Friday, from Thursday's close of $5⅛.

Apple Computer is also expected to report heavy losses for its first quarter, ending this month. The company has already warned that it expects an operating loss and that it intends to take a restructuring charge of about $125m.

Apple's excess inventories, which totalled $1.9bn at the end of last year in parts and completed units, are one of the factors hitting competitors such as AST, industry analysts said.

Of greater concern to PC manufacturers, however, is the decline in US consumer interest in PCs.

Dataquest predicts that after slower growth this year, sales will be unchanged in 1997 and could decline by about 2 per cent in 1998.

The US home personal computer market is approaching saturation, analysts say, with 65 per cent of households with income of more than $100,000 already equipped with at least one PC.

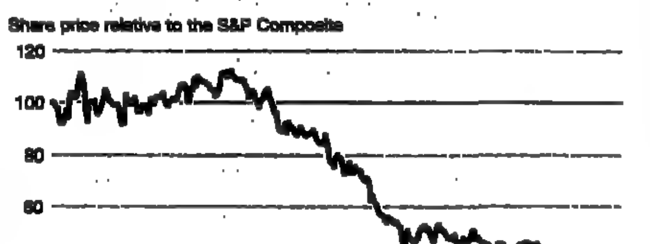
The outlook is not much better in the corporate segment of the PC market, where sales have slowed in anticipation of Microsoft's introduction, later this year, of a new version of its Windows NT operating system.

PC manufacturers are hoping, however, that strong growth in international sales will help to compensate for the apparent slowdown in the US market.

Dataquest analysts noted, for example, that Packard Bell's US shipments increased only about 5 per cent during the last quarter of 1995, but were up 56 per cent in Europe.

AST Research

Share price relative to the S&P Composite



Source: FT Extel

Boehringer Ingelheim expands in Japan

By Emiko Terazono in Tokyo

Boehringer Ingelheim, the German pharmaceuticals group, has acquired a stake in SS Pharmaceutical, Japan's second largest over-the-counter producer. The German company bought 11.17m shares, or 9.1 per cent of SS Pharmaceutical, through its Japanese arm from Cosmo Shinyo Kumiai, a small credit union which collapsed last August.

Boehringer declined to reveal the purchase price, or whether it planned to buy another 14.7 per cent of SS owned by Cosmo Management and Apollo Finance, both of which are affiliated to Cosmo, whose assets are under the control of Tokyo metropolitan government.

The move follows the purchase of Hokuriku Seiyaku, a medium-sized Japanese drugs group, by BASF, the German chemicals group, earlier this month. Japanese drug companies are facing a squeeze on profits due to the government's move to cut medical costs. Weaker companies without the resources to develop innovative drugs have become targets for international groups seeking to expand in Japan.

Cosmo purchased a leading stake in SS Pharmaceutical in 1958 when the drug maker faced financial problems. Mr Sanpachi Taido, owner of Cosmo, was also chairman of the drug company until the credit union's failure.

Boehringer's Japanese operations have about Y50bn ($468m) in annual sales, or 1 per cent of the market. Until now it has focused on ethical drugs but intends to expand in the over-the-counter market.

SS Pharmaceutical, which posted Y57.4bn of revenues last year and Y4.6bn in recurring profits, has an OTC drug store chain, and is Japan's second largest OTC drug maker after Taisho Pharmaceutical.

Boehringer has had a close relationship with SS Pharmaceutical since the 1970s. SS Pharmaceutical officials said they were notified of the share purchase by the Tokyo metropolitan government, and could not assess its outcome.

ATHENS STOCK EXCHANGE March 15th - March 22nd 1996 — GREECE

				GDP (USD bn) 95e	106.62
ASE INDEX	991.50	P/E 95e (after tax)	13.2	Per Capita Income (USD)	10,604
%Chg (Prev. Wk)	-0.96	P/E 94 (after tax)	15.3	Inflation Rate (% Y.O.Y, February 96)	8.50
Yearly High	1026.02	EPS GROWTH (%) 95e	18	12 Month T-bill (%, mid March issue)	13.40
Yearly Low	898.44	P/CE 95e/94	11.4 / 12.4	1-Month Athibor (%)	13.98
WEEKLY VOLUME (USD m)	136.78	P/ BV 95e/94	2.7 / 2.4	GRD/US$	241.88
%Chg (Prev. Wk)	-5.65	Div Yield (%) 95e/94	4.8 / 4.9	A.S.E. Market Capitalisation - 22/3/96 (USD bn)	17.98
1 Y Wk Avg. (USD m)	136.92			IPOs & Rights Issues (in USD m) 1 Jan '96-22 Mar '96	470.50

Home side backs Argentaria sale

Unfortunate timing may have hit international appetite for the third tranche, says Tom Burns

Today's completion of a $1.2bn disposal by Argentaria, the partly privatised Spanish banking group, of 25 per cent of its state-held equity, highlights divergent views between foreign institutions and domestic retail investors over the value of the stock and the timing of its issue.

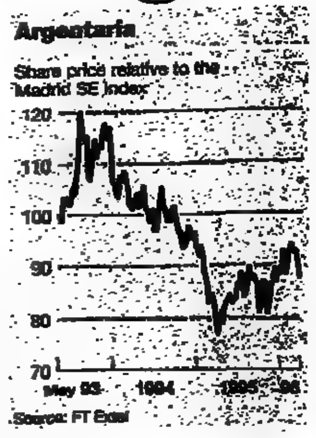
A domestic demand that is said by Argentaria to be seven times oversubscribed contrasts with what some analysts say could be a considerably more cautious appetite for the banking group in the disposal's international tranches.

This is the third global offering of Argentaria shares, and it reduces the government's stake to 25 per cent. In the first Argentaria offering, which took place in May 1993 and likewise involved a 25 per cent disposal, foreign interest in the stock led to international investors subscribing for 10.6 times the shares on offer, far above the domestic demand.

The demand pattern was similar in the second offering six months later, but sentiment has since changed and the roles of home side and foreign investor appear to have been reversed. "I'm not getting much foreign excitement over Argentaria. This issue has certainly not got a Repsol feel to it. It is more like Telefónica," a Madrid broker said.

A $1.1bn disposal last month by Repsol, the domestic oil and gas group, of 11 per cent of its government-held equity was 12 times oversubscribed on its UK tranche. However a $1.3bn sale last October of state-owned shares in Telefónica, Spain's telecoms operator, was saved by domestic investors who bid eight times on the retail tranche against a 1.7 subscription among institutions when the book-building for the issue was completed.

Part of the explanation for the course that the third Argentaria offering is said to be taking could be timing of the issue. "There is nothing much wrong with Argentaria's numbers," said a London-based fund manager who specialises in bank stocks. "The problem is that the political uncertainty in Madrid has shoved Spain into the same bracket as Italy."



In what increasingly looks an imprudent move, Argentaria chose to open its offer period in the middle of a general election campaign.

The poll, which was held on March 3, failed to deliver a clear result and Spain's political parties are now locked into a tortuous negotiating process that seeks to cement a coalition government in order to avert fresh elections.

Domestic investors, who seem to be less concerned about the political developments, have been brought into Argentaria's disposal by the strong distribution channels of the Spanish banks that are leading the issue and by the comparatively cheap price of the stock.

Argentaria's shares closed at Pta5,540 on March 1 and their value tumbled, in line with the market, after the inconclusive general election. Recently Argentaria set a maximum price of Pta5,260 for the disposal and analysts believe that the final price to be fixed on Monday is unlikely to be much above Pta5,200.

The enthusiasm of the retail tranche has been encouraged by a 4 per cent discount and by a guarantee to reimburse investors who hold the stock over the next 12 months should the share value fall 10 per cent. The value of Argentaria's stock, however, touches a raw nerve with some institutions, which bought in November 1993 when the issue was priced at Pta6,050 and saw the share value fall to as low as Pta4,300 last year.

Intent on getting through this time

Greece's state telecoms company has restructured itself and its ambitions to prepare for its third attempt to float, says Kerin Hope

Senior managers at the headquarters of OTE, Greece's state telecoms company, are not prone to superstition, it seems. Mr Petros Lambrou, the chief executive, and his team had no qualms about preparing a third attempt to float the company from offices on the 13th floor.

OTE officials could be forgiven for feeling nervous about this week's listing of 6 to 8 per cent of the company on the Athens stock exchange. An attempt in 1993 to sell 49 per cent of OTE caused a political furore that brought down the government. The following year, a plan to dispose of 25 per cent collapsed when overseas investors said the offering was overpriced.

The offering's modest size this time is intended to defuse lingering political opposition to privatisations. To win backing from OTE's militant trade unions, the government agreed that at least three quarters of funds raised would be used to write down short-term borrowing and finance new investment, rather than being handed over to the finance ministry to reduce public debt.

Mr Lambrou says: "Public attitudes towards the stock exchange have become much more positive. The OTE listing offers a chance to build a base of small shareholders in Greece."

OTE has undergone a radical restructuring in preparation for the public offering. Its accounts, unlike those of other state corporations, are now audited to international standards. The government no longer sets tariffs, and has stopped interfering in day-to-day management – though last month it did exercise its right to appoint a new chairman. The workforce has shrunk from 28,000 to 24,000 since 1993 under a voluntary retirement scheme scheduled to be extended for several more years.

The latest set of accounts from Arthur Andersen show that OTE is Greece's most profitable company, with net profits in 1995 of Dr141bn ($585m) on turnover of Dr593bn. The company forecasts 15 per cent annual earnings growth over the next five years, as tariffs are rebalanced and the benefits of heavy investment in digitalising the telephone network start to be felt.

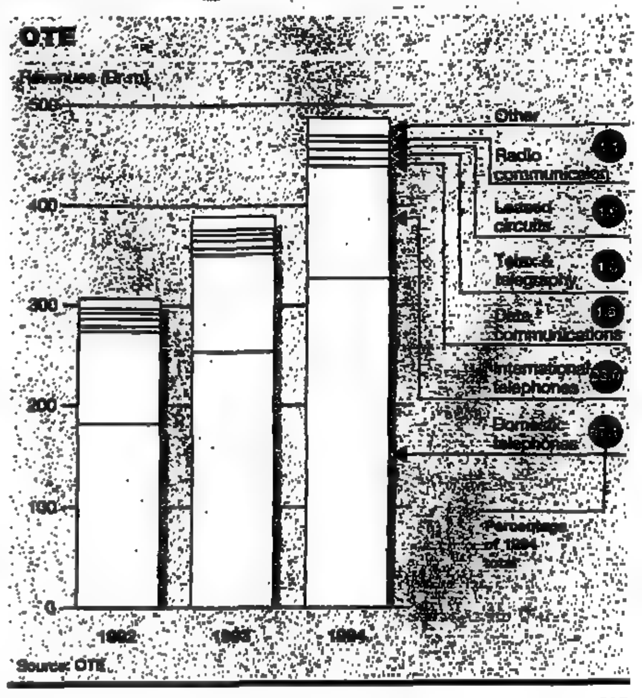
In a recent research report, Salomon Brothers said OTE offered "among the highest growth prospects in the sector", while James Capel noted that despite "the shortcomings of a relatively immature organisation" revenues should rise strongly as Greece acquired a more sophisticated telephone culture.

More than 80 per cent of OTE's revenues come from fixed-wire telephony. While data transmission and paging are becoming more important, local analysts say that better marketing is needed to achieve faster growth in value-added services.

Greece has a larger fixed-wire network than the average EU member-state, with 49 telephone lines for every 100 residents, but revenues per line are only 60 per cent of the EU average. Because the digital network has not extended much beyond Athens and other big cities, 60 per cent of local calls are not yet time-charged.

Like Portugal and Ireland, Greece is not required to liberalise its fixed-wire system until 2003, five years later than the rest of the EU. Mr Lambrou's claim that the company will "be ready to face full competition at least three years earlier" may be too ambitious given the delays so far in upgrading the network.

However, OTE still has considerable margin for raising tariffs. Increases were held down to 5.5 per cent in January this year, half the level permitted under price caps agreed with the government. The company is entitled to raise tariffs next year by another 7 per cent to 8 per cent, but is not likely to do so because of concern about adverse customer reaction.



	1992	1993	1994	1995
Subscriber lines (m)	4.4	4.7	4.9	5.1
Lines per 100 residents	43.3	45.4	47.3	49.3
New applications ('000)	260	187	217	217
Pending applications	642	[illegible]	211	112

Source: OTE

OTE attracts more complaints from users than any other Greek utility, according to local consumer associations. The average waiting time for a new telephone line has been cut from seven years in 1990 to about five months, but that is still much longer than elsewhere in Europe. Call failure rates are falling, but trying to dial a European capital from central Athens can still be a frustrating experience.

The first test of OTE's commitment to improving customer service and marketing of new products will come with the launch of its mobile network, planned for later this year. OTE will compete head-on with two established operators of GSM systems: Panafon, in which Vodafone of the UK and France Telecom are shareholders and Telestet, controlled by Stet of Italy and the US operator Nynex.

With 300,000 subscribers registered by the end of 1995, Greece's mobile telephony market is growing faster than forecast, partly because of the low quality of the fixed-wire network in the provinces.

OTE is looking for a strategic partner to take a 25 per cent stake in setting up a cellular network using the DC1800 system. It plans a total investment of Dr120bn over the next five years with the aim of capturing a 30 per cent share of the mobile market.

However, a legal battle looms, with both Panafon and Telestet contesting OTE's right to establish a mobile system before September 2000 on the grounds that they hold exclusive rights to operate GSM networks until then.

BHP shares dip after 30% fall in third-quarter profits

By Nikki Tait in Sydney

Shares in Broken Hill Proprietary, the Australian resources group, fell 61 cents – or more than 3 per cent – to A$18.08 on Friday, after the company announced a 30.7 per cent fall in third-quarter post-tax profits to A$223m (US$173.5m). Revenues were 12.6 per cent higher at A$4.7bn.

The profits figure compared with A$322m in the same period – to end-February – of the previous year, and was well below analysts' expectations. Most had expected Australia's largest company to turn in a flat or slightly lower performance.

As a result of the third-quarter shortfall, net profits for the nine months were down 21 per cent, at A$1.1bn, on sales 5.6 per cent higher at A$14.1bn.

Compounding the market's pessimism was an ambivalent statement from BHP on future prospects. The company warned: "The outlook in the short term will put pressure on profits", but said the longer-term picture was still "positive as the growth strategy for the company is progressed".

The biggest problem in the third quarter was in the steel division, where after-tax operating profits fell from A$114m a year ago to A$43m, on sales down from A$458m to A$335m.

BHP said all the steel unit's divisions reported higher costs and a less favourable product mix. Export prices were generally lower, and the deceleration in the Australian economy meant that domestic despatches were down.

BHP said it expected export prices to remain under pressure, while the "short-term weakness" at home was likely to prevent any rebound in domestic sales.

On the minerals front, there was also a dip in third-quarter profits, from A$228m a year ago to A$196m. This was blamed on lower realised copper prices, and higher costs at the Escondida mine – because of disruption from expansion plans – and at Ok Tedi in Papua New Guinea, a result of lower production.

The recently-acquired Magma Copper business in the US was consolidated from January 8, but results were "below expectations" because of mine-commissioning problems in Nevada. Exploration expenditure also rose A$18m over the comparable quarter last year.

But BHP took a slightly more positive view of prospects for this division. It said that, while copper prices were down from recent highs, they appeared to have stabilised, and that Escondida's increased capacity should allow for higher sales.

The third main division, petroleum, made A$121m – against A$122m – in the third quarter. The unit benefited from higher realised oil and gas prices, and a better contribution from the Hawaii refinery. The exploration expense charged to profit was also lower.

But these gains were offset by lower oil sales volumes, the increased Australian tax rate, and the loss from the Dai Hung operations, offshore of Vietnam. In the current quarter, BHP said better oil prices were being realised and there should also be a contribution from the Liverpool Bay interests in the UK, where oil and gas developments had been commissioned.

The poor third-quarter performance left many analysts downgrading their full-year profits estimates. In 1994-95, BHP made A$1.63bn after tax but before abnormals, but now seems unlikely to top A$1.5bn.

Lihir hedges gold to meet finance rules

By Nikki Tait

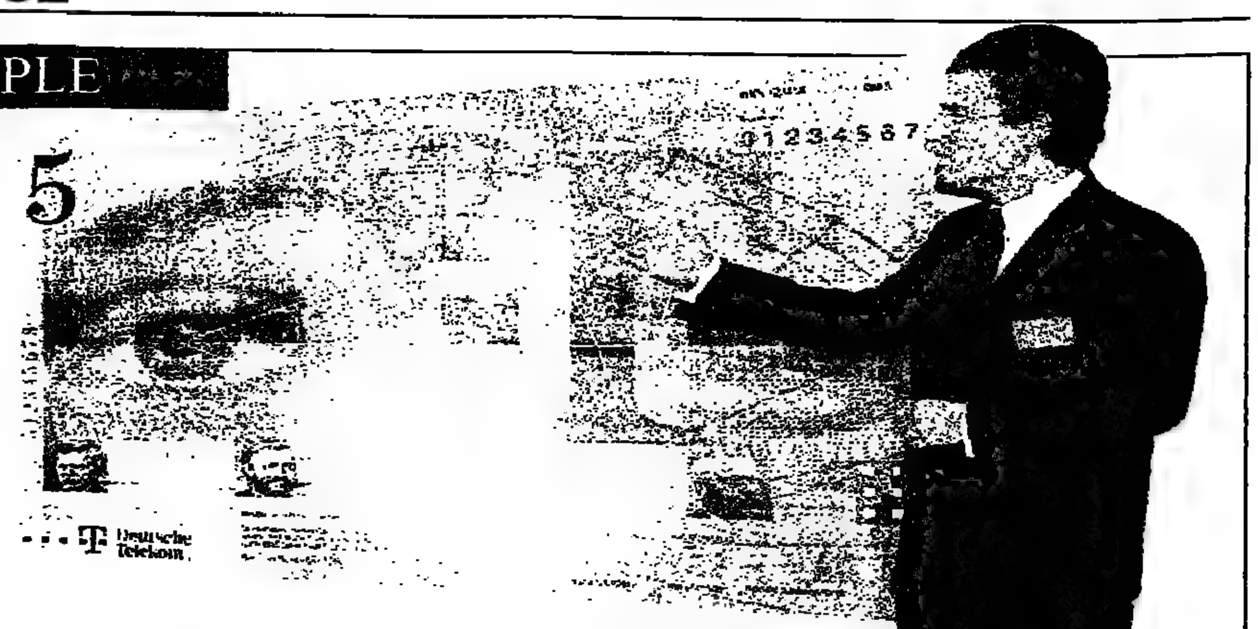
Lihir Gold, the listed developer of the A$1bn (US$778m) Lihir gold project in Papua New Guinea, said it hedged about 750,000 ounces of gold, through a number of gold bullion banks, to provide a guaranteed income of US$422 to US$485 an ounce for this production between 1998 and 2002.

The hedging was required under Lihir's US$300m financing facility. This stipulated that the company ensured a minimum level of income for a third of its projected production over the March 1998 to December 2002 period.

"The programme now in place meets the major part of this commitment," the company said. It said the hedging position was largely achieved through the purchase of put options, and it had met the cost of the programme from the proceeds of last year's US$450m share flotation.

Processing of oxide ore is due to start at the mine in July 1997. The London-based RTZ-CRA mining group, Niugini Mining, and the PNG government all have significant stakes in the mine.

CITY PEOPLE



Big picture: Ron Sommer and DM5 share

UBS lures another star for New York

The defection of top-rated US bank analyst Thomas Hanley from CS First Boston to UBS Securities, the rival Swiss-owned investment bank, has given Wall Streeters plenty to gossip about, Maggie Urry writes.

Hanley brilliantly timed his resignation to coincide with last week's conference of the Bank and Financial Analysts Association in New York, enabling him to appear wearing a lapel badge proclaiming his new allegiance to all the top US bankers in attendance.

Since Hanley joined CSFB from Salomon Brothers in early 1992, the bank has shot up the league tables for bank-related mergers and acquisitions, thanks in large part to Hanley's list of contacts. His loss is thus a severe one.

The gain is equally important for CSFB's Swiss rival. Hanley's move reunites him with his former colleagues from Salomon, headed by Richard Barrett.

Barrett and some of his financial institutions team made a highly public move to UBS last year, reputedly securing a pay deal running into millions. UBS has already won some business as a result, including advising Fleet Financial Group on its purchase of National Westminster's US retail banking operation. Fleet used to be counted a Salomon client.

Hanley's move comes after a string of departures from CSFB's fixed-income department, including last week's resignation by John Costas, head of US bonds, who is also going to UBS Securities. That area has been in turmoil since late February when bonuses turned out to be smaller than expected because of losses in the mortgage area.

Last Thursday CSFB announced a reorganisation of the fixed-income department, and appointed Marc Hotimsky to Diamond's old job. Even so, CSFB insiders admit that more resignations are expected.

All calm on London's Deutsche Telekom front

All the heavyweights were drafted into action in Bonn last week, for the opening of the campaign to sell off Deutsche Telekom, Europe's largest telecoms operator, Alan Cane writes.

Ron Sommer, Telekom's chairman, launched the DM10m ($6.7m) public information campaign, flanked by Theo Waigel, Germany's finance minister, and Wolfgang Bötsch, posts and telecoms minister. Success of the DM15bn float, Summer enthused, would "reflect the quality of Germany as a financial centre."

In fact, a hefty chunk of the shares will be placed in London. With eight months still to go, the City seems relaxed. But insiders say the preparations have been "pretty intense" since the three joint global co-ordinators – Goldman Sachs, Deutsche Bank and Dresdner Bank – were appointed last year.

Those expected to handle the deal in London include Goldman Sachs's Robert Morris, a sharp, top-ranked telecoms analyst, placed in Europe to exploit the rash of privatisation possibilities. Goldman Sachs will also be fielding Michael Evans, a London-based partner and Olympic rowing gold medallist.

The Deutsche Morgan Grenfell effort is expected to be led by Maurice Thompson and Michael Cohrs, lured at huge cost from SBC Warburg last year. Tony Alt – a veteran of the BP and British Gas privatisations – will be advising Deutsche Bank on behalf of Rothschild.

Ford's latest recruit

The board of Ford Motor could probably do with the advice of a good investment banker right now, Richard Waters writes. Despite signs that it has shaken off a lull in US sales and its plan to raise cash by selling part of its highly-regarded financial services business, the stock continues to languish. Were it not for the Ford family's controlling stake, the company would have good reason to look over its shoulder.

John Thornton, head of Goldman Sachs' European investment banking operations, could be just the ticket. In recent years, Thornton has become one of the top corporate advisers in London, while helping make Goldman a power in takeovers and mergers across Europe. As well as joining the board of Ford, last week he was named chairman designate of Laura Ashley, the British retailing group headed by Ann Iverson, a fellow American.

Thornton will bring two other qualities to the boardroom in Dearborn. One is his relative youth, at 42. He joins just as two other directors – Colby Chandler and Kenneth Olsen, the former chairmen of Eastman Kodak and Digital Equipment respectively – step down on reaching 70.

The second is his extensive experience outside the US. While many other internationally-minded US companies have already made strides in appointing non-Americans as directors, Ford's board remains highly US-based – British chairman Alex Trotman notwithstanding. Thornton may be an American, but he has worked in Europe since 1983.

Trouble-shooters shortlisted

At least 270 people in Britain and beyond think being a trouble-shooter telling corporate boards how to pull their socks up might be a fun way to earn a living, Norma Cohen writes.

When Hermes Investment Management, the fund manager which oversees the assets of the UK's largest pension scheme, announced last month that it was looking for just that sort of a person, the response was overwhelming. "It touched a nerve out there," says Alistair Ross Goobey, chief executive of Hermes.

Ross Goobey is coy about exactly who has applied, but says a number "are straight merchant bankers and straight fund managers who are less interesting to us". Several applicants have run large divisions of UK plcs, and others are management consultants who have advised corporations on strategy.

Even more interesting, Ross Goobey says, are applications from those who have actually been corporate strategists within a company. It does not matter that their expertise is industry specific, he says. Strategy is strategy.

Which is the fairest fund of them all?

Norma Cohen on the search for reliable benchmarks for bonds

FUND MANAGEMENT

It's easy to say you are the handsomest guy around when all you are comparing yourself to, say, a group of squat, balding competitors.

So it is with bond fund managers who advertise their abilities to "outperform" a benchmark whose components bear little resemblance to the portfolios being measured.

In the UK, the difficulties of comparing the performance of bond fund managers have taken on greater significance over the past year. Pension schemes for some of the UK's largest companies now have far more pensioners than contributing members, a characteristic which has prompted them to shift a higher proportion of assets into bonds.

Mr Peter Lockyer, partner in the investment practice at consulting actuaries Alexander Clay and Partners, touched a nerve at a recent investment conference by pointing out that UK managers have a choice of benchmarks, most of which are inappropriate for their portfolios. All the manager need do to claim expertise is to compare himself to a benchmark, with lower returns than his own over the previous three years.

This can be illustrated by comparing the average return of bond fund managers alongside two indices: the FT-Actuaries All Stocks Index – consisting of all maturities of UK government gilts – and the Over 15-Year Index, which measures annual returns only on the longest maturity gilts.

In 1993, for instance, the industry median return on bond portfolios, as calculated by performance measurers WM Company, was 25.1 per cent. A manager could claim quite healthy outperformance by comparing himself against the All Stocks Index which that year returned a much more modest 20.9 per cent.

But if the Over 15-Year Index is the basis for comparison, then the average manger has done very badly. That index had a total return of 34.4 per cent in 1993.

"Everybody can dig out some segment of the market and claim that they outperformed," Mr Lockyer said. "My advice to trustees is that they be twice as sceptical when choosing a bond fund manager as an equity fund manager."

Unlike equities, where a share is always fundamentally a share, a bond has so many different characteristics – such as maturity, credit risk and interest rate sensitivity – that categorising them for the purpose of indices is very complex.

It is hard enough to devise benchmarks that track the market generally. But it is much more difficult to devise one that shows the average fund manager's performance with a portfolio that has a duration – the average maturity date of the bonds in the portfolio – matching that of the trustees' own portfolio.

Trustees must set a duration appropriate for their liability structure, ensuring that bonds in the portfolio mature in line with the need to provide pensions for new retirees.

Another difficulty is that none of the UK bond benchmarks take higher yielding – but riskier – corporate debt into account. The indices are simply composed of various maturities of government gilts.

The difficulties of UK pension trustees in gauging the relative abilities of bond fund managers are mirrored in the continental Europe.

Mr Jon Bailie, senior research analyst at Frank Russell International, notes that for most European countries, the existing indices are subsets of broader bond indices developed by Salomon Brothers and JP Morgan, which only take government debt into account. In some countries, mortgage bonds are a significant part of the market and the yields on these may not be included in the indices.

Meanwhile, managers of German bond portfolios have been heard to complain bitterly about the leading domestic bond index, Rex. This is composed of a hypothetical basket of bonds and its components change frequently. As a practical matter, managers say, it is impossible to replicate and equally impossible to outperform.

But it is the US market where assessing the relative merits of bond portfolio investors becomes most problematic, Mr Bailie says. "There may be more pitfalls in the US market because there are some incredibly complex bonds that you can buy," he notes. In addition to the full range of mortgage pass-throughs and stripped bonds, there so-called inverse floaters and a world of weird and wonderful instruments which contain elements of risk only discernable to nuclear physicists.

The performance of bond portfolios containing these securities cannot be compared to those which do not, Mr Bailie says. And the current leading bond indices leave these out.

Consultants, having pointed out the difficulties of choosing the right bond fund manager, have few solutions. Typically, to avoid making the wrong choice, they suggest close consultations with none other than themselves.

With a growing percentage of funds going into fixed interest, and with trustees ever more concerned about performance, it is clear that there is a growing commercial demand for bond benchmarks.

It will be up to the marketplace to develop a suitable range, so that trustees can more accurately measure the track record of prospective managers who have invested portfolios which look very much like their own.

FINANCIAL TIMES
MARKETS
THIS WEEK

Global Investor / **Richard Lapper**

Bonds take flexible line on Emu

French bonds were not at the top of most strategists' buy lists at the start of 1996. As the government emerged battle-scarred after protracted strikes by public sector workers and the French economy slowed, the bonds looked a bad bet.

There seemed little chance that the country would meet one of the most important of the Maastricht criteria for European monetary union, the reduction of the fiscal deficit towards 3 per cent of gross domestic product in 1997, and every likelihood that France would underperform other investments in the fixed income markets.

The pundits preferred Japanese equities and emerging markets and they have not been completely wrong. The French markets have not been immune to the turn in sentiment against international fixed income markets, triggered by evidence that the US economy is growing faster and that inflationary pressures are greater than many had expected, and dollar returns have been marginally negative.

Even so, French bonds have outperformed both the German and US. The 10-year yield spread between France's bonds and those of Germany, which act as valuation benchmark in the European market, has narrowed from more than 82 basis points in early December to a low last week of 15 basis points. Before Christmas, even the most optimistic observers were not prepared to bet that it would fall below half a percentage point.

A influx of cash from retail investors in France triggered by tax changes introduced earlier this year has been one of the reasons. Increasingly though, another factor appears to be coming into play.

A growing number of observers are becoming convinced that even if France is unable to meet all the Maastricht criteria this will not be enough to derail the European Monetary Union process and that the country's interest rates will continue to converge towards German levels. They argue that rather than delay monetary union in order to give countries more time to meet tight debt, fiscal and inflation targets, the European Commission will opt to interpret the membership criteria more flexibly.

Mr David Marsh and Mr Paul Brunker, European strategists at Robert Fleming, the securities house, who put the case in particularly cogent fashion*, suggest support for the dilution argument is growing in Germany because it will help weaken the D-Mark against other European currencies, improving prospects for German exporters and helping to stimulate economic recovery.

Formal postponement of the Emu deadline or a period of uncertainty are still possibilities, but according to Fleming's analysis, there is now a 50 per cent probability that the criteria will be diluted.

Although the German government is reassuring domestic investors that it will stick closely to the Maastricht conditions, preparations are being made for "political interpretation" of the criteria that will effectively allow them to be softened.

One of the attractions of the argument is that it also helps explain another striking trend in European bond markets – the increasing steepness of the already steep German yield curve, the shape of which reflects differences in yields between bonds of differing maturities. The steeper the curve, the bigger the gap between yields offered by investments in short and long-term bonds.

Emu has been a factor in the shape of the German curve for some time. Many domestic investors are worried that their investments in D-Mark denominated securities may be worth less when the D-Mark is converted into Euros. They have therefore favoured short-term investments which mature before Emu begins.

Talk of dilution increases these fears, since the prospect of Emu members following looser monetary and fiscal policies makes it more likely that the new Euro will be worth less than the D-Mark. The gap between the rates offered by three-month money and 10-year bund yields has widened from 221 basis points at the beginning of the year to 311 basis points last Thursday.

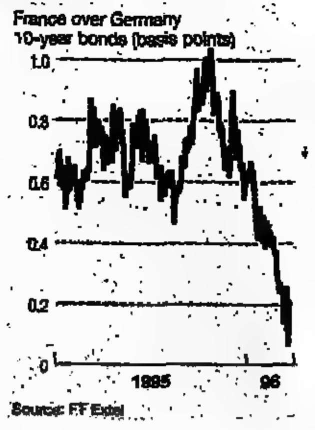
The argument is not just about relative values in the bond markets. One obvious implication is for currency markets, where further weakening of the D-Mark might be expected (it has fallen by more than 1 per cent on a trade weighted basis this year).

In the equity markets, the main beneficiaries from dilution would be in sectors which benefit from D-Mark weakness. Fleming cites motor and motor components, chemicals and building products – hard currency industrials – from Germany, the Netherlands and France, whose "shares have been overshadowed by the long-term threat of currency appreciation against peripheral Europe and the dollar".

Conversely stocks from countries with weaker currencies – such as Italy, Spain and Sweden – would be losers under the dilution scenario.

** The Moment of Truth for EMU: Softening the criteria for the single currency.*

Yield spread



Source: FT Extel

Total return in local currency to 21/3/96

	US	Japan	Germany	France	Italy	UK
	% change over period					
Cash						
Week	0.10	0.01	0.06	0.06	0.19	0.11
Month	0.45	0.05	0.28	0.34	0.82	0.51
Year	6.75	2.18	5.56	7.75	11.88	7.72
Bonds 3-5 year						
Week	0.21	-0.21	0.53	0.08	0.15	0.17
Month	-1.24	0.80	0.73	0.54	2.03	-0.04
Year	9.71	7.20	11.75	14.13	21.88	11.78
Bonds 7-10 year						
Week	0.52	-0.41	0.46	-0.14	0.31	0.32
Month	-1.61	-0.62	0.45	0.81	3.01	-0.37
Year	12.30	9.51	12.33	16.38	30.55	12.29
Equities						
Week	1.3	3.7	3.2	0.5	0.0	0.7
Month	0.4	1.1	4.4	3.0	0.0	0.0
Year	34.3	25.8	28.4	15.2	-0.9	23.2

Source: Cash & Bonds - Lehman Brothers. Equities-© FT/Extel Index Unit. The FT/S&P Actuaries World Indices are jointly owned by FT-SE International Limited, Goldman Sachs & Co., and Standard & Poor's.

COMPANY RESULTS DUE

Exceptional gains buoy Wharf Holdings

■ **Wharf Holdings:** 1995 results for the Hong Kong conglomerate, due today, are expected to be influenced by exceptional items. Analysts are predicting a jump of about 40 per cent at the net level, to about HK$4.40bn ($569m). The results will be boosted by exceptional gains, including revenues from an asset swap involving the sale of its Singapore-listed subsidiary, Marco Polo Developments. Stripping out exceptional items, analysts expect a fall in profits, reflecting losses at its cable television operations and the sluggish property market.

■ **Henderson Land Development:** Tomorrow the property group, one of Hong Kong's biggest, and its sister company Henderson Investment report their interims. Henderson Land, which posted net earnings of HK$7.03bn for the year to June 1995, is forecast to gain some 10-16per cent over the full year, helped by the partially improving property market and gains from the spin-off of its China property division, for which prospectuses are now being distributed.

■ **ING:** The Dutch bank's full-year results are due on Thursday, when net profits are expected to reach between Fl 2.65bn and Fl 2.73bn ($1.6bn), or Fl 9.60 and Fl 9.76 per share, compared with Fl 2.3bn or Fl 8.71 per share in 1994.

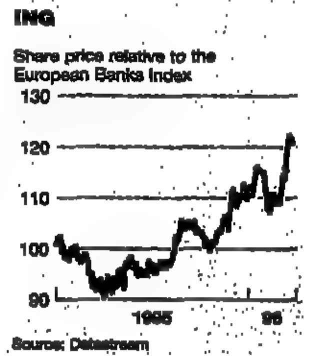
Analysts expect the bank to raise its 1995 dividend to between Fl 3.95 and Fl 4.10 from Fl 3.74. They will be looking for strong results from the non-life business, which is riding at the top of its cycle, although ING may feel a pinch from claims relating to last year's hurricanes on the Dutch Antilles island of St Maarten.

ABN Amro Hoare Govett's analysts expect ING's life operations in the Netherlands to show an ongoing strong performance. They said general insurance would show strong earnings growth in all regions except Australia, because of several natural disasters, and in Latin America as a result of hurricane Luis.

The banking business is expected to generate most of its 1995 profit growth from proprietary trading and commission income.

Banking costs in 1995 are expected to rise by as much as 20 per cent, with most of the increase coming from foreign operations. Analysts agreed that after financing charges, Barings would remain loss-making in 1995 but should make a substantial contribution to 1996 earnings.

ING



Source: Datastream

■ **Cheung Kong and Hutchison Whampoa:** Li Ka-shing's flagship company, Cheung Kong, and Hutchison Whampoa, the conglomerate he controls, both announce their final results on Thursday. The market consensus is for Cheung Kong to post single-digit percentage growth, from HK$10.11bn in 1994 to between HK$10.45bnand HK$10.9bn. For Hutchison, a counter on which the market is turning increasingly bearish, growth is expected to be more robust – mainly thanks to the US$173.3m sale of the balance of Star TV, the pan-Asian satellite broadcaster, to NewsCorp. Peregrine is looking for net earnings at Hutchison to improve 18 per cent, from HK$8.02bn to HK$9.47bn.

■ **Citic Pacific:** The Hong Kong-listed arm of China's main international investment vehicle is expected to show a healthy increase in net profits when it announces results tomorrow. Analysts are divided about forecasts, but most predict a rise of between 20 and 30 per cent over the HK$2.57bn recorded in 1994. Much attention will be paid to the strategic priorities of the group, which is a major shareholder in Dragon Air, the Hong Kong carrier, and which has stepped up its investment and infrastructure projects on the mainland.

■ **Italian companies:** This week will be busy for Italian company results. Among the groups reporting 1995 figures are Banco di Napoli, which may also unveil plans for a much-needed recapitalisation. The other Italian banks, which last year agreed on an emergency loan of L2,500bn ($1.6bn) for the Neapolitan bank, have been in talks with the treasury, which owns a 13 per cent stake, and the Bank of Italy about how to proceed. One possibility is the conversion of the loan into shares. In the meantime, the bank is set to announce another record loss for 1995. For the first half of last year alone, the bank lost L1,560bn as it tried to clean up its loan portfolio.

The successful restructuring of Pirelli, the Italian tyre and cable manufacturer, saw a return to consolidated profit of L147bn in 1994 after three years of losses. For the first half of 1995, Pirelli increased profit to L115bn and will reveal next week whether it has met its forecast that the second-half would be at least as good.

■ **BASF:** The German chemicals company will unveil detailed results tomorrow, which should reveal its underlying profit growth. The company has already posted a 67 per cent increase in pre-tax profits to DM4.13bn ($2.8bn), on sales up 5.7 per cent at DM46.2bn. However this is thought to have been boosted by sizeable exceptional gains in the second half, when sales were 20 per cent lower than in the first half.

■ **Aegon:** The Dutch insurer is due to report full-year results on Friday. Analysts expect net profits of between Fl 1.29bn and Fl 1.31bn, up from Fl 1.15bn in 1994. Earnings per share are forecast to rise between Fl 4.95 and Fl 5.00 from Fl 4.48 a year earlier, adjusted for the company's 2.5-for-1 share split in June last year. The company is expected to raise its dividend to between Fl 2.23 and Fl 2.35 from the adjusted 1994 figure of Fl 1.94.

One analyst said: "Aegon's earnings are continuing to grow as steadily as ever. After disposing of most of the health and other non-life insurance in its portfolio, the largest part of its business is in life insurance, which is growing steadily in the Netherlands and the US."

Life insurance premiums accounted for about 70 per cent of Aegon's premium revenue and nearly half of total revenue in 1994. The dollar's 12 per cent decline against the guilder will be among the chief factors affecting Aegon's 1995 results. Aegon generates about 43 per cent of its revenue in the US.

INTERNATIONAL EQUITIES By Antonia Sharpe

Caught up in the rush for Scania

International investors like few things better than a flotation of a world-class company. So it comes as no surprise to hear that the initial public offering in Scania, the Swedish heavy truck manufacturer, is oversubscribed well before it closes on April 1.

The reasons why they are queueing up to buy the stock are compelling. Scania is the most profitable truck company in the world and it makes twice as much in profit margins than any other truck manufacturer.

Scania will also be the only pure play on Europe's truck sector, where manufacturers are enjoying the best margins for 15 years. Other European truck manufacturers, namely Mercedes Benz, Renault and Volvo, are part of much larger and diversified automotive groups. Unlike its main competitors, Scania has no exposure to the US market, which could contract by between 20 and 30 per cent this year.

It was inevitable that Sweden's Wallenberg industrial empire, which is selling a 50 per cent stake in Scania, would seek the best possible price.

It is equally inevitable that the price range is seen to be on the high side by some analysts, who believe that further appreciation in the shares is limited.

The range, which has been set at SKr155-SKr185 ($23.10-$27.60) a share, values the company at SKr31bn-SKr37bn ($4.6bn-$5.5bn).

Pricing Scania was always going to be tricky because there are no other quoted truck companies to provide an easy reference point. Analysts are divided into two camps: those who believe that Scania should be compared to capital goods companies, such as Sandvik or Atlas Copco, and those who believe it should be compared to auto companies which also produce trucks.

Both camps, however, are giving greater weight to debt-adjusted or sales-related valuations than to price/earnings ratios. When compared against Sandvik and Atlas Copco, Scania looks fairly priced when using the preferred valuation measures, but it commands a hefty premium over the car companies.

Reports that some investors are placing orders before they have completed their own valuations suggest they are not too concerned about which is the correct way to value Scania nor, indeed, about the price they are being asked to pay.

However, in their eagerness, investors could be overlooking the less palatable points. One area of concern could be the over-optimistic analysis of Scania's earnings.

The average market estimate for its earnings per share for 1996 is SKr15 and SKr20 for 1997. The 1996 forecasts are justified by Scania's strong order book, but the 1997 forecasts leave little room for a possible weakening in the European truck market that year. Scania has 14½ per cent of the market, which sells about 175,000 trucks a year.

Mr John Lawson, motor analyst at Salomon Brothers, believes that the slowdown in European economies this year and next, and declining business confidence, will cause Europe's heavy truck market to fall by 5-10 per cent next year. But other analysts limit any contraction to 2 per cent.

Investors might also want to discount the importance of Scania's new 4-series truck range. Mr Lawson points out this range is part of an unprecedented renewal of trucks in Europe. Volvo brought out a new truck 18 months ago, Renault is due to launch the Renault VI in the summer and Mercedes, the market leader, is scheduled to introduce its SKN heavy truck in the autumn.

Finally, little attention has been paid to the poor track record of truck company flotations. Daf Trucks, which went public in 1989, was bankrupt just four years later and Renault's share price performance since its flotation in late 1994 has been disappointing.

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FT-SE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The Indices are compiled by FT-SE International Limited and Goldman Sachs in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the Indices.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	FRIDAY MARCH 22 1996 US Dollar Index	% chg since 29/12/95	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg from 29/12/95	Gross Div. Yield	THURSDAY MARCH 21 1996 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (81)	199.54	6.0	192.77	134.64	153.05	170.85	0.6	4.01	202.10	194.90	136.10	155.11	172.77	202.74	158.79	158.81
Austria (24)	183.38	5.1	177.15	123.73	140.65	140.50	8.2	1.51	184.06	177.51	123.95	141.27	141.11	199.26	168.11	186.42
Belgium (33)	206.57	-1.2	199.55	139.38	158.43	154.45	1.8	3.70	207.76	200.37	139.91	159.46	155.38	215.81	174.36	176.49
Brazil (28)	156.84	13.7	151.52	105.83	120.29	284.91	15.4	1.72	155.47	149.94	104.70	119.33	282.34	170.25	108.06	111.60
Canada (101)	156.20	6.2	150.89	105.39	119.80	154.10	6.1	2.44	155.89	150.34	104.99	119.65	153.71	158.71	132.37	132.56
Denmark (33)	292.67	1.4	282.74	197.48	224.48	226.83	4.2	1.80	293.28	[illegible]	197.50	225.09	227.36	305.17	252.41	260.79
Finland (24)	185.83	-0.7	179.52	125.39	142.53	179.28	5.2	2.74	185.31	178.71	124.79	142.22	178.82	276.11	171.13	178.01
France (98)	187.29	[illegible]	180.93	126.38	143.65	148.74	8.1	3.12	187.46	180.79	126.24	143.87	[illegible]	191.17	167.70	170.63
Germany (60)	174.38	6.5	168.46	117.66	133.75	133.75	9.8	1.92	174.04	167.85	117.20	133.58	133.58	174.88	142.25	147.39
Hong Kong (58)	433.37	11.8	418.66	292.42	332.39	430.18	11.8	3.36	434.13	418.68	292.35	333.20	430.92	451.19	323.87	343.87
Ireland (16)	260.02	1.8	251.20	175.45	199.43	231.85	3.2	3.46	260.03	250.78	175.11	199.58	[illegible]	265.00	207.72	207.72
Italy (59)	72.98	-1.0	70.50	49.24	55.96	85.18	-2.5	2.12	73.84	71.21	49.72	56.67	85.65	82.71	65.30	67.63
Japan (482)	149.93	-3.2	144.84	101.16	114.99	101.16	0.1	0.76	150.49	145.13	101.34	115.50	101.34	164.82	137.75	142.71
Malaysia (107)	551.31	13.6	532.60	372.00	422.85	540.06	13.8	1.60	552.16	532.51	371.83	423.79	541.21	561.96	425.77	472.60
Mexico (18)	1174.08	13.3	1134.22	792.21	900.51	9702.72	11.2	1.43	1159.51	1114.49	778.21	886.94	9539.31	1237.14	893.33	683.23
Netherland (19)	285.46	4.7	275.77	192.61	218.95	215.16	7.8	3.21	284.77	274.64	191.77	218.57	214.67	285.96	228.30	230.26
New Zealand (13)	84.62	6.2	81.75	57.10	64.91	65.39	1.1	4.59	83.87	80.89	56.48	64.37	64.79	85.49	72.39	72.79
Norway (33)	239.24	3.4	231.12	161.43	183.50	208.43	5.1	2.40	239.00	230.49	160.94	183.43	208.15	243.79	205.19	207.49
Singapore (44)	442.97	8.8	427.93	298.89	339.75	287.77	8.4	1.38	444.59	428.77	299.40	341.23	288.98	465.21	350.19	356.03
South Africa (45)	387.44	0.8	374.28	261.42	297.16	332.12	6.2	2.54	385.46	371.74	259.58	295.84	328.71	437.76	320.21	336.12
Spain (37)	168.82	2.8	164.06	114.59	130.25	159.51	5.1	3.42	170.54	164.48	114.85	130.89	160.31	175.88	124.10	124.95
Sweden (46)	349.77	12.1	337.89	236.00	268.27	342.81	12.0	2.59	345.65	333.33	232.75	265.27	340.67	351.16	232.23	235.64
Switzerland (39)	250.43	6.1	241.93	168.96	192.07	185.30	10.1	1.53	248.82	239.98	167.56	190.97	184.23	250.43	176.48	176.93
Thailand (46)	182.03	8.2	175.85	122.82	139.61	178.46	8.5	1.83	177.47	171.18	119.51	136.21	173.99	193.95	134.53	140.86
United Kingdom (205)	230.57	0.0	222.74	155.57	176.84	222.74	1.2	4.20	230.50	222.30	155.22	176.91	222.30	235.50	201.76	201.76
USA (631)	265.55	5.7	256.54	179.18	203.68	265.55	5.7	2.18	265.03	255.60	178.48	203.41	265.03	269.11	202.54	202.54
Americas (778)	242.27	5.8	234.04	163.47	185.81	203.62	5.8	2.16	241.75	233.15	162.80	185.54	203.18	245.54	185.05	185.05
Europe (726)	207.01	3.1	199.98	139.66	158.77	178.77	5.2	3.08	206.83	199.47	139.28	158.74	178.56	207.01	172.79	173.69
Nordic (136)	296.49	7.5	[illegible]	200.06	227.41	254.48	8.9	2.34	294.36	283.88	198.22	225.92	253.51	297.48	222.22	226.66
Pacific Basin (832)	163.69	-0.9	158.13	110.45	125.65	113.15	1.6	1.20	164.29	158.45	110.64	126.10	113.38	171.87	148.86	151.26
Euro-Pacific (1558)	181.64	0.9	175.47	122.56	139.31	138.02	3.3	2.09	181.91	175.44	122.50	139.62	138.09	183.39	158.92	160.51
North America (732)	258.80	5.7	250.01	174.62	198.49	258.10	5.7	2.19	258.29	249.10	173.94	198.24	257.59	262.26	198.21	198.21
Europe Ex. UK (521)	189.08	4.8	182.66	127.58	145.02	153.27	7.5	2.47	188.85	182.13	127.18	144.95	153.15	189.08	153.44	154.55
Pacific Ex. Japan (350)	290.03	9.6	280.18	195.70	222.45	252.27	8.2	2.97	291.04	280.68	195.99	223.37	253.09	293.58	233.75	234.69
World Ex. US (1750)	183.01	1.2	176.79	123.48	140.36	142.23	3.6	2.10	182.81	176.69	123.38	140.61	142.25	184.71	159.65	160.94
World Ex. UK (2176)	206.29	3.4	199.29	139.19	158.22	173.19	4.8	1.93	206.25	198.91	138.89	158.30	173.07	207.64	170.30	170.76
World Ex. Japan (1899)	240.67	5.0	232.50	162.39	184.59	226.62	5.8	2.54	240.36	231.79	161.85	184.47	226.27	242.17	191.14	191.42
The World Index (2381)	208.48	3.1	201.40	140.67	159.90	177.74	4.5	2.14	208.43	201.02	140.38	159.97	177.60	209.73	173.10	173.46

 Base values: Dec 31, 1986 = 100; Finland: Dec 31, 1987 = 115.037 (US $ Index), 90.791 (Pound Sterling) and 94.94 (Local); Nordic: Dec 30, 1988 = 139.65 (US $ Index), 114.45 (Pound Sterling) and 123.22 (Local); Brazil, Thailand and Americas: Oct 31, 1994 = 180.44 (US $ Index), 164.07 (Pound Sterling) and 149.94 (Local). CONSTITUENT CHANGES WITH EFFECT 25/3/96: Additions: Fletcher Energy (Medium-Small Cap), Fletcher Building (Medium-Small Cap) and Fletcher Paper (Large Cap) (all New Zealand). Deletion: Fletcher Challenge (New Zealand). PLEASE NOTE: Clarification of quarter end change (effect 1/4/96): Deletion: D/S 1912 A (Denmark). CONSTITUENT CHANGE DURING THE WEEK ENDING 22/3/96: Name change: Westmont Bhd to Westmont Industries Bhd (Malaysia).

MARKETS: This Week

NEW YORK By Maggie Urry

US shares reached new highs early last week, recovering from the one-day fall of 171 points on March 8. Meanwhile, Treasury bonds rallied slightly, with the yield on the long bond dipping over the week by about 10 basis points.

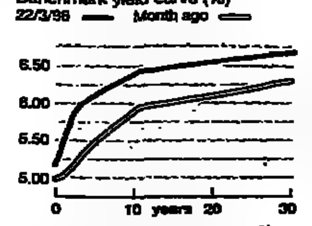
That said, the markets were dull for the latter part of the week, and practically motionless by Friday. Traders are desperately seeking new direction, but are unlikely to receive much guidance from this week's meeting of the Federal Reserve's Open Market Committee meeting.

According to Donaldson, Lufkin & Jenrette, tomorrow's meeting will be the most anti-climactic of the past year. Policy will be on hold, as recent economic data has precluded a further interest rate cut. The next scheduled meeting is on May 21 and by then, investors hope, the Fed will have a clearer idea of how the economy is behaving.

Just when economists hoped the numbers were regaining some meaning, the General Motors dispute erupted. Although that was settled on Friday, the 17-day stoppage will make the economy look slower than it really is, pushing up unemployment claims and depressing industrial production.

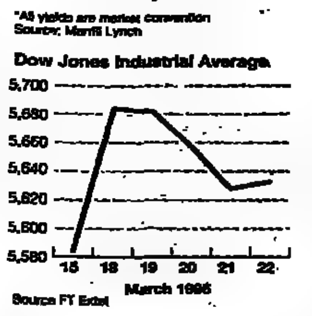
This week's economic news kicks off with tomorrow's survey of consumer

Benchmark yield curve (%)* 22/3/96 — Month ago ═



*All yields are market convention
Source: Merrill Lynch

Dow Jones Industrial Average



Source FT Extel

confidence, which is expected to show a recovery from February's 97 per cent to 99 per cent in March, according to a survey by MMS International.

Wednesday brings figures for durable goods orders in February. This too is likely to be stronger than the previous number, with MMS expecting a 0.4 per cent increase, against a 0.2 per cent rise in January. Friday's new home sales statistics may show continued strength as house-buyers rush to lock in to low, but rising, mortgage rates.

LONDON By Philip Coggan

Nearly three months of intense activity in the London equity market has left the FT-SE 100 index just 18 points ahead of its level at the start of the year.

Both on the international and domestic fronts, there are powerful forces pulling the market in opposite directions, and the tug-of-war is unlikely to be resolved this week.

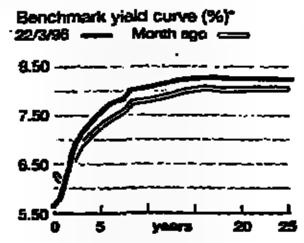
Domestically, the decent corporate results season, combined with continued takeover activity, is being counteracted by political nervousness and a feeling, best illustrated by the short sterling futures market, that interest rates have fallen as far as they can go.

Internationally, hopes of further interest rate cuts in Europe and very low rates in Japan are positive factors for shares. However, the recent signs of a pick-up in the US economy have raised doubts that the Federal Reserve will cut rates further and have contributed to a sharp rise in Treasury bond yields.

While the impact of these various factors has been mixed for equities, it has been pretty negative for gilts, with the yield on the benchmark 10-year issue moving decisively above the 8 per cent level. A £3bn auction will provide a difficult test this week.

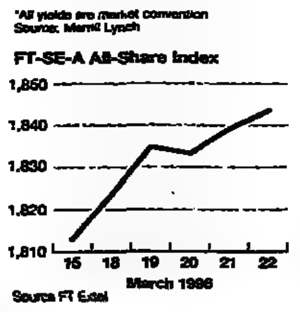
There is hope of some relief, however, if the Bundesbank

Benchmark yield curve (%)* 22/3/96 — Month ago ═



*All yields are market convention
Source: Merrill Lynch

FT-SE-A All-Share Index



Source FT Extel

agrees to cut German interest rates on Thursday, although opinion about the chances of a move is divided. A Fed cut is seen as unlikely.

It is a quiet week for economic statistics in the UK, with only Friday's trade numbers likely to be of interest to investors.

There have been few shocks so far, but investors will be scanning figures from the likes of Inchcape, Booker, Blue Circle, Kingfisher and Next for indications of the health of the UK economy.

FRANKFURT By Wolfgang Münchau

A Bundesbank central council meeting on Thursday and the release of earnings reports from Deutsche Bank and Commerzbank will be among the most closely watched events in German markets this week.

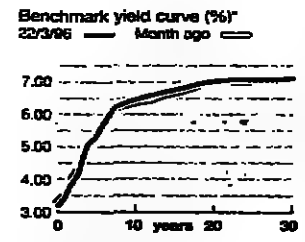
Opinions about whether the Bundesbank will cut the discount and Lombard rates from their current levels of 3 and 5 per cent are as divided as ever, especially after last week's release of unusually strong M3 money supply data.

Most economists, including the Bundesbank itself, warned against reading too much into the data, which tend to suffer from the statistical distortions that usually arise at the beginning of a year.

Since inflation expectations remain favourable, especially in view of some recent wage talks, a further cut in interest rates is still seen as probable at some stage, although few expect the Bundesbank to move this week. There is broad agreement that Germany is getting near to the bottom of the current interest rate cycle, with scope for further rate cuts of 25 or 50 basis points diminishing the more time passes.

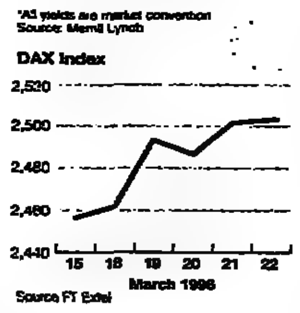
Coming up, as the Bundesbank announced on Friday, is the launch of a new 10-year Bund at the end of April of up to DM12bn, to be followed in late-May by the

Benchmark yield curve (%)* 22/3/96 — Month ago ═



*All yields are market convention
Source: Merrill Lynch

DAX Index



Source FT Extel

issue of Bundesobligationen of up to DM8bn.

Stock market investors will be looking to the banking sector for further impetus, after the DAX index last week hit record levels, ending the week at 2,504.02. The recent upturn was driven largely by the three chemical majors, which reported a series of good results.

Apart from the Deutsche Bank and Commerzbank results, this week's activitity includes news conferences from Volkswagen and Linde.

TOKYO By Emiko Terazono

The effects of the political wrangle over the liquidation of the *jusen* housing loan companies have started to wane.

Pressure on the New Frontier opposition party to reopen talks on the government's plan to liquidate the *jusen* is expected to rise this week following the NFP's loss in the upper house by-election in central Japan over the weekend.

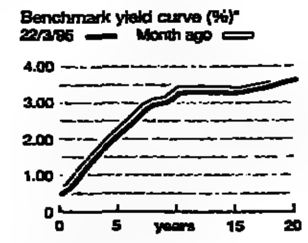
The NFP had been blocking the entrance of the parliamentary committee room to prevent voting over the budget Bill, which contains public spending on the *jusen*. Uncertainty over the resolution of the debacle had been weighing on the markets.

The Tokyo stock market, which rebounded on mounting expectations of an imminent resolution last week, is likely to see further purchases on the back of the election results. Prices are also likely to see support from fund allocations for the new fiscal year as trading for April settlement starts on Tuesday.

Foreign investors have already started to buy cyclical blue chips, including steels, shipbuilders, material and property stocks; domestic investors, including pension funds and investment funds, are likely to join in this week.

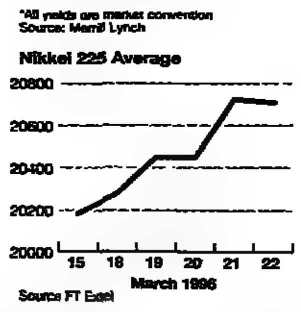
The bond market, meanwhile, has also been a

Benchmark yield curve (%)* 22/3/96 — Month ago ═



*All yields are market convention
Source: Merrill Lynch

Nikkei 225 Average



Source FT Extel

victim of the *jusen* problem, with activity hit by the uncertainty. However, hopes of an end to the political haggling are not necessarily a boon for bond prices, since a rise in the stock market and the passage of the budget Bill point to a firmer economic recovery.

Caution over the effects on short-term interest rates of increased funding by banks ahead of the fiscal year-end is likely to rise this week. Traders will also focus on February industrial production figures on Friday.

COMMODITIES By Richard Mooney

Sugar plan unnerves traders

A proposal, to be discussed by the London Commodity Exchange board on Wednesday, to change the specifications of its Number 5 white sugar futures contract has sparked warnings that the London market could become less attractive and lose business.

Some traders fear that a proposed increase in the required loading rate from 750 to 1,250 tonnes a day, while favouring European Union ports, would create problems for big suppliers such as Brazil and Thailand, where ports are fewer and the volumes handled much greater.

"Any berthing delay means a huge demurrage penalty based on the 1,250 tonnes a day load rate," a broker told Reuters news agency last week. "It makes it more expensive and less attractive to use the market at all."

There seemed to be widespread scepticism, however, that there would be any real changes to the LCE contract in the near term.

"It appears as if the LCE Board itself is not too happy with the proposals," said F.O. Licht, the German commodities statistics agency. The chances were good, it said, that the board would not follow the recommendations.

● Other events of interest to the sugar trade this week include Agra Europe's two-day World Sugar and Sweeteners Conference, which begins tomorrow in Bangkok, and Wednesday's annual conference of the Australian Cane Farmers' Association in Brisbane. In Bangkok, addresses will be given by representatives of trade houses, manufacturers, producers, governments and food and drink companies.

Switching to the cereals sector, today sees the start, in Haikou, China, of a four-day US Grains Marketing conference; tomorrow, the Sydney Futures Exchange launches its new wheat futures and options. On Thursday, the London-based International Grains Council will publish its latest monthly report – updating production, consumption and stocks estimates.

In London, Tan Range Exploration will talk to analysts and the media on Friday about gold properties in Tanzania, Ethiopia and Zambia.

OTHER MARKETS Compiled by Michael Morgan

PARIS

Still reeling from the shock of the Renault results last week, the market will be hoping that Alcatel Alsthom's 1995 figures this week will be cause for a celebration, *writes John Pitt*.

The results will be negative, of course: the company has already set the stage by forecasting a loss of some FFr20bn ($4bn). However, what investors will be watching for is a statement from Mr Serge Tchuruk, its new president, that plans are being laid for the revitalisation of the company.

On the political front, there remain tensions, with demonstrations being planned this week to protest against the government's proposals to reform the defence industry. Hilfe, the independent research consultancy, says that President Chirac may well stand by his embattled prime minister, Mr Alain Juppé, at least until the end of the year.

"If unemployment is not on a steady down trend by then Juppé's position will look precarious and he may have to go, even if there is no change in basic policy," it says.

MILAN

Most investors, and particularly foreigners, continue to give the market a wide berth in the run-up to the April 21 election, the outcome of which is still far from clear. Indeed, some polls suggest that up to 30 per cent of the electorate have still to decide which way to vote.

Last week's good news on inflation was already priced into the market and, despite this week's relatively full calendar of economic data releases, the market is likely to remain in the doldrums.

Meanwhile, the bourse council is trying to stimulate interest in the market's smaller quoted companies as dealing volumes slowly dry up.

A report on poorly traded shares showed that while Italy's top industrial groups remained popular, the bourse's smallest 100 stocks saw their share of trade fall to 0.1 per cent in 1995 from 0.85 per cent in 1991.

HONG KONG

The results of Taiwan's elections and the ensuing reaction from China will define trading in Hong Kong today. Fears of escalating tension stand to drive the prices of Hong Kong stocks, particularly those with a big China exposure, lower.

Domestically, corporate earnings will be the focus, as the reporting season gets into full swing.

WI Carr analyst Mr Mike Warren is not alone in anticipating disappointing results from some of the bigger capitalised companies. If poor results do materialise, a wave of selling may be on the cards.

BRADY BONDS

Consolidation in the US Treasury market buoyed Brady bonds last week, with the WMB index of secondary market debt rising by some 4 per cent, *writes Richard Lapper*.

In addition positive economic news from Brazil, where controversial social security reforms made some progress through Congress, and from Venezuela, where there is evidence that the government is coming closer to a deal with the IMF, helped underpin a more confident mood.

This week the market's initial focus will be on the Inter-American Development Bank meeting in Buenos Aires, where more details about the political future of Mr Domingo Cavallo, the Argentine economy minister, are expected to emerge. Last week, Mr Cavallo clashed with President Carlos Menem over a plan to involve trades unions in economic decision-making.

If stability does return to the Treasury market, investors will again begin to focus on improving fundamentals in a number of Latin markets, analysts believe. In the near term, for example, Mr Jerome Booth, head of merging markets research at ANZ, expects Mexico, which reduced interest rates on its Cetes last week, to be a beneficiary of that trend.

CURRENCIES By Philip Gawith

Markets look to central banks to relieve torpor

The double whammy this week of central bank policy meetings both in the US and Germany should allow markets to break out of the grim torpor that has embraced them recently.

There is also the possibility that the regional elections in Germany, or the presidential poll in Taiwan, will affect the currency markets.

The lack of market activity has been a big talking point in recent weeks. Some observers believe there is little prospect of this changing in the near term; others feel that we are witnessing "the calm before the storm", with a dollar "break-out" from existing ranges close at hand.

Most analysts believe that any break would likely be on the upside, if only because stronger currencies would ill-suit the Japanese and German economies at the moment.

Also important will be the Japanese fiscal year-end. The portfolio adjustments which managers make could well have a critical influence on currency values, particularly if, as some suspect, Japanese long-term investors decide to increase the weighting of their foreign assets.

The three state elections which took place in Germany over the weekend may also have an impact on markets. The success of the SDP will be closely watched, since it is advocating an increasingly anti-Maastricht line. A strong showing which cast doubt on the single currency project would in the first instance be likely to support the D-Mark.

The performance of the FDP, which is part of the ruling coalition at the federal level, will also be an issue.

Analysts at Deutsche Morgan Grenfell point out that "if it does not manage to gain entry into two out of the three state parliaments, then the opposition is likely to argue that [Chancellor] Kohl no longer has a mandate to govern at the federal level".

Expectations of a cut in US interest rates this week are low, given the recent strong payrolls report. The chances in Germany appear higher, although a strong February M3 figure may cause the Bundesbank to hold off a while longer.

CROSS BORDER M&A DEALS

BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
Elan (Ireland)	Athena Neurosciences (US)	Biotechnology	£392m	Merger deal
SkyePharma (UK)	Jago (Switzerland)	Pharmaceuticals	£127.6m	Gowrie-Smith builds again
ABN Amro (Netherlands)	Comerica bank-Illinois (US)	Banking	£123m	Bolstering Chicago presence
Sun Microsystems (US)	Integrated Micro Products (UK)	Computer products	£62m	Good fit seen
CRH (Ireland)	Jack B Parson (US)	Building materials	£56.8m	Continues US strategy
Holderbank (Switzerland)	Consolidado de Cementos (V'zuela)	Cement	£44m	Completes control
SIG (UK)	WKT (Germany)	Insulation products	£38.9m	Growth platform
SIG (UK)	Golinski Group (Germany)	Insulation products	£7.5m	Initial 50% stake

FT GUIDE TO WORLD CURRENCIES

The table below gives the latest available rates of exchange (rounded) against four key currencies on Friday, March 22, 1996. In some cases the rate is nominal. Market rates are the average of buying and selling rates except where they are shown to be otherwise. In some cases market rates have been calculated from those of foreign currencies to which they are tied.

		£ STG	US $	D-MARK	YEN (X 100)
Afghanistan	(Afghani)	7290.30	4750.00	3219.88	4449.88
Albania	(Lek)	151.945	99.0000	67.1060	92.7444
Algeria	(Dinar)	82.2975	53.6210	[illegible]	50.2328
Andorra	(French Fr)	7.7703	5.0628	3.4317	4.7429
	(Sp Peseta)	190.292	123.985	84.0405	116.151
Angola	(Read) Kwanza)(1)	48782.1	31784.0	21544.1	29775.6
Antigua	(E Carib $)	4.1440	2.7000	[illegible]	2.5294
Argentina	(Peso)	1.5347	1.0000	0.6778	0.9368
Armenia	(Dram)	618.3400	402.880	273.083	377.422
Aruba	(Florin)	2.7473	1.7900	1.2133	1.6769
Australia	(Aus $)	[illegible]	[illegible]	0.8726	1.2060
Austria	(Schilling)	15.9250	10.3759	7.0331	[illegible]
Azerbaijan	(Manat)	6822.180	4445.00	3012.98	4164.13
Azores	(Port Escudo)	234.057	152.500	103.369	142.864
Bahamas	(Bahama $)	1.5348	1	0.6778	0.9368
Bahrain	(Dinar)	0.5786	0.3770	0.2556	0.3532
[illegible]		[illegible]	[illegible]	[illegible]	[illegible]
Equat'l Guinea	(CFA Fr)	777.030	506.280	343.171	474.289
Estonia	(Kroon)	18.1433	11.8212	8.0127	11.0743
Ethiopia	(Ethiopian Birr)	8.9019	5.8000	3.9314	5.4335
Falkland Is	(Falk £)	1	0.6516	0.4416	0.6104
Faroe Is	(Danish Krone)	8.7461	5.6985	3.8626	5.3384
Fiji Is	(Fiji $)	2.1558	1.4045	0.9520	1.3158
Finland	(Markka)	7.0655	4.5970	3.1160	4.3065
France	(Fr)	7.7703	5.0628	3.4317	4.7429
Fr. Cty/Africa	(CFA Fr)	777.030	506.280	343.171	474.289
Fr. Guiana	(Local Fr)	7.7703	5.0628	3.4317	4.7429
Fr. Pacific Is	(CFP Fr)	141.608	92.2645	62.5395	86.4345
Gabon	(CFA Fr)	777.030	506.280	343.171	474.289
Gambia	(Dalasi)	14.9643	9.7500	6.6088	9.1339
Germany	(D-Mark)	2.2643	[illegible]	1	1.3821
Ghana	(Cedi)	2398.89	1563.00	1059.45	1464.24
Gibraltar	(Gib £)	1	0.6516	0.4416	0.6104

		£ STG	US $	D-MARK	YEN (X 100)
Greece	(Drachma)	370.146	241.170	163.472	225.931
Greenland	(Danish Krone)	8.7461	5.6985	3.8626	5.3384
Grenada	(E Carib $)	4.1440	2.7000	1.8301	2.5294
Guadeloupe	(Local Fr)	7.7703	5.0628	3.4317	4.7429
Guam	(US $)	[illegible]	1	0.6778	0.9368
Guatemala	(Quetzal)	9.4998	6.1895	4.1955	5.7985
Guinea	(Fr)	1530.18	997.000	675.795	[illegible]
Guinea-Bissau	(Peso)	27681.8	18036.0	12225.3	16896.3
Guyana	(Guyanese $)	213.184	138.900	94.1509	130.123
Haiti	(Gourde)	24.8268	16.1760	10.9646	15.1539
Honduras	(Lempira)	15.5912	10.8100	7.3273	10.1269
Hong Kong	(HK $)	11.8666	7.7317	5.2408	7.2431
Hungary	(Forint)	219.914	143.285	97.1238	134.231
Iceland	(Icelandic Krona)	101.698	66.2600	44.9128	62.0732
India	(Indian Rupee)	53.0274	34.5500	23.4190	32.3668
[illegible]		[illegible]	[illegible]	[illegible]	[illegible]
Montserrat	(E Carib $)	4.1440	2.7000	[illegible]	2.5294
Morocco	(Dirham)	13.2079	8.6056	5.8331	8.0618
Mozambique	(Metical)	16898.1	11010.0	7462.89	10314.3
Namibia	(S A Rand)	6.0186	3.9220	2.6584	[illegible]
Nauru Is	(Australian $)	1.9759	1.2873	0.8726	1.2060
Nepal	(Nepalese Rupee)	87.8873	57.2500	38.8057	53.6325
Netherlands	(Guilder)	2.5345	1.6514	1.1194	1.5471
N'nd Antilles	(A/Guilder)	2.7473	1.7900	1.2133	1.6769
New Zealand	(NZ $)	2.2336	1.4552	0.9864	1.3632
Nicaragua	(Gold Cordoba)	12.5361	8.1679	5.5364	7.6518
Niger Rep	(CFA Fr)	777.030	506.280	343.171	474.289
Nigeria	(Naira)	33.7655o	22.0000	14.9122	20.6099
	(Naira)	129.537m	84.4000	57.2087	79.0669
Norway	(Nor. Krone)	9.8512	6.4186	4.3507	6.0130
Oman	(Rial Omani)	0.5910	0.3851	0.2610	0.3608

		£ STG	US $	D-MARK	YEN (X 100)
Pakistan	(Pak. Rupee)	52.8264	34.4885	23.3752	32.3064
Panama	(Balboa)	1.5348	1	0.6778	0.9368
Papua New Guinea	(Kina)	2.0671	1.3468	0.9186	1.2694
Paraguay	(Guarani)	3092.62	2015.00	1365.82	1887.66
Peru	(New Sol)	3.6078	2.3505	1.5932	2.2020
Philippines	(Peso)	40.2271	26.2100	17.7659	24.5538
Pitcairn Is	(£ Sterling)	1	0.6516	0.4416	0.6104
	(NZ $)	2.2336	1.4552	0.9864	1.3632
Poland	(Zloty)	3.9602	2.5803	1.7490	2.4173
Portugal	(Escudo)	234.057	152.500	103.369	142.864
Puerto Rico	(US $)	1.5348	1	[illegible]	0.9368
Qatar	(Riyal)	5.5862	3.6410	2.4680	3.4109
Reunion Is. de la	(F Fr)	7.7703	5.0628	3.4317	4.7429
Romania	(Leu)	4711.88	3070.00	2080.95	2876.01
Russia	(Rouble)	7447.62m	4852.50	3289.16	4545.88
Rwanda	(Fr)	337.686	220.000	149.132	206.099
[illegible]		[illegible]	[illegible]	[illegible]	[illegible]
Vanuatu	(Vatu)	171.760	111.910	75.8558	104.839
Vatican	(Lira)	2398.51	1562.75	1059.28	1464.00
Venezuela	(Bolivar)	444.516o	289.625	196.316	271.324
Venezuela	(Bolivar)(2)	792.136m	516.118	349.839	483.505
Vietnam	(Dong)	16899.7	11011.0	7463.57	[illegible]
Virgin Is-British	(US $)	1.5348	1	0.6778	0.9368
Virgin Is-US	(US $)	1.5348	1	0.6778	0.9368
Western Samoa	(Tala)	3.8056	2.4795	1.6807	2.3228
Yemen (Rep of)	(Rial)	214.872r	140.000	94.8960	131.154
Yugoslavia	(New Dinar)	7.4581	4.8593	3.2938	4.5523
Zaire Rep	(Zaire)	43594.4	28404.0	19253.0	26608.2
Zambia	(Kwacha)	1737.39	1132.00	767.302	1060.47
Zimbabwe	($)	14.7341	9.6000	6.5072	8.9934

Special Drawing Rights March 21, 1996 Utd Kingdom £0.950158 Utd States $1.46115 Germany DM2.15783 Japan Y155.437 European Currency Unit Rates March 22, 1996 Utd Kingdom £0.834615 Utd States $1.28030 Germany DM1.88356 Japan Y136.979

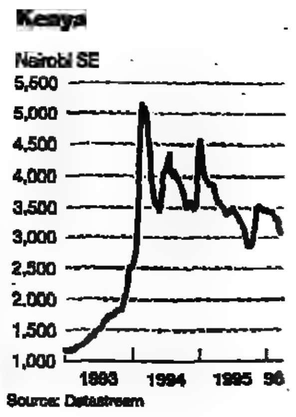
Abbreviations: (o) Free rate; (m) Market rate; (o) Official rate; (r) Parallel rate (t) Tourist rate (u) Currency fixed against the US Dollar (v) Floating rate (1) Angolan Readjusted Kwanza devalued on 4/3/96. (2) Venezuelan Market rate derived from Brady bond trading; Some data derived from THE WM/REUTERS CLOSING SPOT RATES & Bank of America, Economics Department, London Trading Centre. Enquiries: 0171 634 4365.
To obtain a copy of this table by Fax from the Cityline service dial 0891 437001. Calls charged at 39p/minute cheap rate, 49p/minute at all other times
Friday, March 22, 1996

EMERGING MARKETS By Joel Kibazo

Nairobi exchange set for uplift

Today's opening of the public offer for Kenya Airways will not only lead to the biggest flotation on the Nairobi Stock Exchange, but is also expected to revive the fortunes of a market that has been in retreat for the past 15 months.

The offer, which will remain open for four weeks, represents the final stage in the privatisation of the national flag-carrier which has been transformed over the past four years into a profit-making airline. Having reported losses of $50m in 1992, profits this year are expected to beat analysts' forecasts of $22m.



Source: Datastream

The sale is by far the biggest in the NSE's 42-year history. Of the 48 per cent of the group's shares being offered for sale, 14 per cent has been set aside for international investors. Presentations in London last week indicated widespread interest in the issue, not only from specialist Africa funds but also from institutions in several European countries and the US. The rest has been earmarked for local investors.

Last January, KLM, the Dutch national carrier, acquired a 26 per cent stake, which may explain the interest in the offer from Dutch institutions. The government decided it is to retain a 23 per cent holding and 3 per cent has been set aside for an employee share ownership scheme.

Analysts said the government's decision to price it at Ks11.25 a share, at a deep discount to the asset value of Ks17.38, is not only designed to ensure the success of the offer but is also likely to mean it will be significantly oversubscribed.

According to Mr John Munge, of Shah, Munge & Partners, lead broker to the issue in Nairobi, the sale will increase the market capitalisation of the Nairobi Stock Exchange by about 6 per cent from the current $1.7bn, while the broker predicts the 235m shares being sold to domestic investors will increase liquidity on the bourse by about 23 per cent.

According to Mr Jimnah Mbaru, chairman of the NSE: "The increased trading at the bourse will greatly improve liquidity: turnover is projected to increase from 3.17 per cent in 1995 to above 4 per cent by the close of 1996".

As well as increasing the number of shares available for trading, observers say the sale has also changed many local practices. The first was in the choice of financial adviser. Instead of the usual practice of making the choice behind closed doors, Kenya Airways decided on a transparent process in which Citibank beat off strong competition from local favourite Barclays Bank.

While Shah, Munge remains the lead broker to the issue, representation, particularly from the smaller brokers which emerged after a change in regulations last year, means there are now 19 brokers to the offer.

The management and financial advisers have also held a series of presentations for leading investors in Kenya, a move said to be unusual in the country.

The management is also holding meetings in several towns around the country for community leaders, and an advertising campaign to attract local participation is already under way. Retail banks around the country are to be used to distribute both application forms and share certificates.

The Kenya Airways sale is expected to trigger a revival in fortunes of a market that has been out of favour for more than a year. Having recorded the sharpest gains in the emerging markets sector in 1994, the Nairobi Stock Exchange index fell by about 22 per cent last year. It has fallen by another 10 per cent since the beginning of this year, closing at 3,098.37 on Friday.

Dealers pointed to several factors for the decline, including general consolidation following the previous year's rise; the strength of the shilling; poor company results; lower international prices for some of Kenya's leading exports of tea and coffee; and farmers not being paid on time.

Several analysts also suggested a lack of new issues in 1995 did little to generate interest in the market, while others say some institutions were heavy sellers in the second half of last year in anticipation of Kenya Airways and other impending offers.

Other issues expected this year include the government's disposal of another 20 per cent holding in Kenya Commercial Bank, and the sale of part of its remaining stake in National Bank of Kenya.

But in spite of such impending activity, several would-be foreign investors remain cautious about investing on the stock exchange.

The main worries centre on custody and settlement. While Barclays Bank is expected to handle the settlement of the Kenya Airways issue efficiently for foreign investors, other would-be buyers are wary of the general operation of the market. Mr Mike Power of Baring Asset Management says: "Kenya has to get rid of its outdated settlement procedure and introduce a delivery versus payment (DVP) system as they have in other emerging markets."

Other concerns include current regulations that place a 40 per cent ceiling on foreign investment in any quoted Kenyan company, and expensive dealing costs, though these have been reduced in recent months.

Recent rumours suggest the authorities have been stung into action and legislation is being quickly prepared which could see a DVP system introduced as early as the third quarter of this year.

INTERNATIONAL BONDS By Samer Iskandar

Traders take a rain check on expectations

When US and European bond markets fell by more than 1 percentage point on Friday March 8, the initial reaction of most analysts was to describe the sell-off as a "correction".

But market participants subsequently admitted that the events of "Black Friday" were reminiscent of February 1994, when a monetary tightening by the US Federal Reserve became the starting point of a prolonged bear market that saw yields rise almost continuously for about a year.

It is difficult to describe the outlook for 1996, as many traders who started the year with positive expectations are now revising their anticipations.

After publishing an extensive survey of global bond and currency markets, Mr Mark Fox, director of fixed income research at Lehman Brothers, noticed what appears to be "a difference between investors' declared convictions and the way their portfolios are actually invested".

Lehman's survey shows that holdings of bonds in most of the main markets have declined in March, compared with February, while the weight of cash in portfolios has increased from 12 per cent to 18 per cent.

For example, the proportion of funds that were "neutral" to "maximum long" in US bonds decreased from 61 per cent to 48 per cent. The attitude towards UK bonds was similar, with long and very long positions declining from 39 per cent to 16 per cent.

Mr Fox remains bullish on bonds in the very short term, because he believes the market's reaction to the US employment data was "too violent and overdone". However, he is more cautious over medium-term prospects: "There is room for a two-month rally," he said, "but European bonds are no longer a one-way [upwards] trade, once you look at hard economic evidence."

Mr Fox expects economic activity this year to be stronger than the market seems to anticipate, especially after seeing confirmation of solid "growth in the first quarter in the US and Japan, two of the three major currency areas".

Mr Michael Norman, a Geneva-based investment adviser, is convinced bonds will be "a very bad investment" in 1996. He believes participants are "under-estimating inflationary pressures" in the US, and points to money supply data.

In Friday's issue of Economic Contrarian Update, an investment letter he publishes, Mr Norman looks at the M1 monetary aggregate, which witnessed an "enormous surge" earlier this month after two years of almost continuous decline.

In Europe, where other analysts believe slow growth could prompt further official rate cuts, Mr Norman points to the lack of "any credible action to limit budget deficits", which will undoubtedly lead to very high levels of bond supply.

He sees his fears on the public finances front reflected in the current high level of real yields on European government debt. A monetary easing by the Bundesbank would, according to him, cause a sell-off in German bonds by reviving fears of inflationary pressures.

Mr Michael Burke, a senior economist at Citibank, is also pessimistic. He points to a conjunction of bearish factors that could weigh on bond prices.

Most OECD countries, he said, "are involved in reflationary policies aimed at fighting unemployment", with the side-effect of digging even deeper in deficits that are already substantial. Furthermore, "the private sector's demand for capital is rising", because corporations are "looking ahead to an economic rebound", as can be seen by the level of capital investment and the strong activity in the US housing sector.

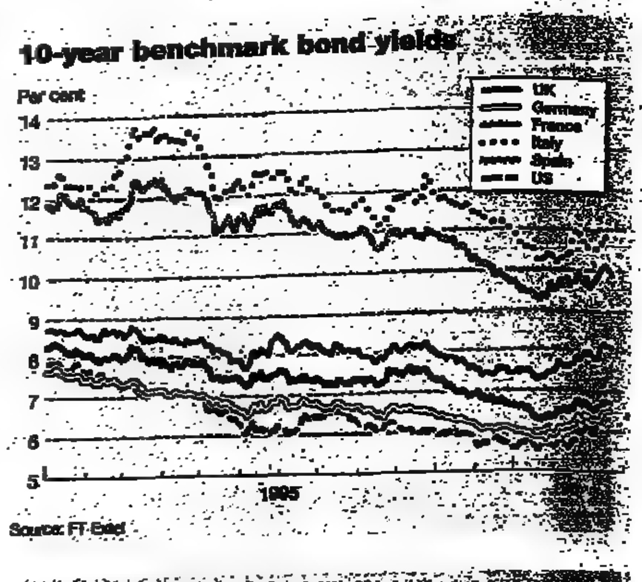
This increasing need for liquidity is particularly ill-timed, said Mr Burke, with Japan's budget deficit increasing, therefore "choking the supply of liquidity to the western economies". In the past six or seven years, Japanese savings had provided the rest of the world with about half its financing needs, according to Mr Burke.

However, while these analysts seem to predict a re-run of 1994, some market participants remain somewhat optimistic. Ms Yasmine Raval, a fund manager at Crédit Lyonnais Asset Management, still believes the recent poor performance of bonds was a correction and has little in common with the last bear market.

"The sharp fall [of March 8] was induced by a rise in uncertainty over unexpected employment data; which is very different from February 1994, when the Fed had to raise interest rates to slow an economy that was growing too fast."

Economic fundamentals are different now, said Ms Raval, who believes the market "is certainly expecting economic activity to pick up, but [the most likely scenario] is that of moderate growth with very little inflation".

She nonetheless believes the best opportunities lie not in the main markets, but in peripheral European countries such as Spain, Italy and Sweden, which stand to gain most from monetary union with Germany and where efforts to rein in deficits seem to be "on the right track".



Source: FT Extel

INTEREST RATES AT A GLANCE

	USA	Japan	Germany	France	Italy	UK
Discount	5.00	0.50	3.00	5.60	9.00	[illegible]
Overnight	5.19	0.47	3.19	[illegible]	[illegible]	[illegible]
Three month	5.11	0.68	3.25	3.87	[illegible]	[illegible]
One year	5.39	0.68	3.37	4.12	9.40	[illegible]
Five year	6.04	1.86	5.21	5.96	[illegible]	[illegible]
Ten year	6.32	3.06	6.50	6.75	[illegible]	[illegible]

(†) France-Pibor rate. (‡) UK-Base rate. Source: Reuters.

ING BARING SECURITIES EMERGING MARKETS INDICES

Index	22/3/96	Week on week movement Actual	Percent	Month on month movement Actual	Percent	Year to date movement Actual	Percent
World (395)	155.94	+2.91	+1.90	-0.97	-0.62	+8.38	+5.68
Latin America							
Argentina (22)	91.01	+1.03	+1.15	-3.01	-3.20	-1.77	-1.91
Brazil (23)	205.62	+5.64	+2.77	-9.74	-4.45	+22.72	+12.21
Chile (16)	175.43	-2.77	-1.55	-9.96	-5.37	-20.23	-10.34
Colombia (14)	153.65	+1.83	+1.19	-10.84	-6.51	-8.60	-5.24
Mexico (23)	79.56	+4.39	+5.84	+2.63	+3.42	+5.97	+8.31
Peru (14)	1,057.07	-18.53	-1.72	-72.02	-6.38	-11.88	-1.11
Latin America (112)	128.58	+3.04	+2.42	-3.47	-2.63	+5.44	+4.42
Europe							
Greece (18)	110.78	-0.45	-0.40	+3.36	+3.15	+12.81	+13.08
Portugal (20)	126.91	-0.71	-0.56	-1.64	-1.27	+10.46	+8.95
Turkey (26)	113.45	+2.65	+2.39	+8.05	+7.64	+30.65	+37.02
South Africa (32)	156.79	-0.92	-0.58	-0.30	-0.19	+3.41	+2.22
Europe (96)	128.57	-0.46	-0.35	+0.57	+0.44	+7.04	+5.79
Asia							
China (24)	46.04	+0.61	+1.34	-3.27	-6.63	+5.72	+14.18
Indonesia (32)	147.17	+1.48	+1.02	-8.08	-5.89	+8.53	+6.15
Korea (23)	133.91	+2.73	+2.08	-1.58	-1.16	-3.00	-2.19
Malaysia (24)	257.69	+6.57	+2.65	+13.88	+5.69	+30.32	+13.34
Pakistan (14)	79.23	-4.89	-5.81	-19.94	-20.10	+5.64	+7.67
Philippines (14)	291.74	+5.65	+1.97	-6.64	-2.23	+32.57	+12.57
Thailand (25)	259.70	+9.77	+3.91	-8.20	-3.06	+7.81	+3.10
Taiwan (31)	132.17	+4.65	+3.68	+9.27	+7.54	+1.34	+1.03
Asia (187)	216.84	+5.41	+2.56	+1.50	+0.70	+13.80	+6.79

All indices in $ terms, January 7th 1992=100. Source: ING Baring Securities.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Maturity	Coupon %	Price	Yield %	Launch spread bp	Book-runner
US DOLLARS							
Ube Industries‡§♦	400	Mar 2000	3.75	100.00	-	-	Yamaichi Intl(Europe)
Unidan 30(b)♦	137	Mar 2000	4.25	100.00	-	-	Nomura International
[illegible] Chemicals Co(c)♦	100	Mar 2000	3.25	100.00	-	-	Daiwa Europe
ACCMT II, S 96-B, T A(a)‡	649.75	Aug 2004	(a1)	100.00R	-	-	JP Morgan Securities
MBACCT II, S 96-B, Cl A(f)‡	435	Mar 2006	(f1)	100.00	-	-	Lehman Brothers
KfW International Finance	200	Apr 2000	6.125	[illegible]	6.229	+59	Paribas Capital Markets
DePfa Bank	200	Apr 1999	6.125	99.898R	6.239	+15(6%-99)	BNP Capital Markets
Indorayon Intl Finance(g)	150	Mar 2001	10.00	99.53R	10.12	+385(5%-00)	SBC Warburg
DSL Bank	200	Apr 1998	6.00	100.19R	5.902	-3(5⅞%-98)	Nomura Intl/SBCW
HCLT 1996-1(c)‡	638.4	Mar 2006	(c1)	100.00	-	-	Lehman Brothers
SBC Jersey(h)	200	Mar 1999	0.00	[illegible]	6.650	-3.5(6%-99)	SBC Warburg
UBS Finance(i)§	125	Apr 2001	2.50§	100.00	-	-	UBS
ANZ Banking Group‡	100	Mar 1997	(w1)	99.99R	-	-	Merrill Lynch Intl
Banco Hipotecario Nacional	75	Mar 1999	10½(j)	99.637R	10.65	+473(5%-99)	Deutsche Morgan G'fell
CFC-PAT 1996-1, Cl A3(x1)‡	646	Nov 1997	(x1)	100.00R	-	-	Merrill Lynch
CFC-PAT 1996-1, Cl A3(x2)	[illegible]	Nov 1997	5.98	99.572R	6.187	+34(5¼%-99)	Merrill Lynch
European Investment Bank	275	Apr 2000	6.00	[illegible]	6.049	[illegible]	BZW
BT Securities Corp(y)‡	150	Mar 1999	(y1)	99.95R	-	-	[illegible]
[illegible]	75	Mar 1998	11¾(j)	99.577R	11.98	+626(5¼%-98)	Salomon Brothers Intl
Indian Railway Finance Corp‡	50	Mar 2003	(z)	100.00R	-	-	ANZ
Walt Disney Company	1.3bn	Mar 2001	(A)	(A)R	(A)	+39(5⅝%-01)	CSFB/Merrill Lynch
Walt Disney Company	1.3bn	Mar 2006	(A)	(A)R	(A)	+47(5⅝%-06)	CSFB/Merrill Lynch
Landesbank Rheinland-Pfalz(B)	250	Apr 2000	6.00	99.663R	6.100	+12(B)	SGBT
D-MARKS							
Rheinische Hypo(p,k)	500	Dec 2001	5.50	98.065	5.903	-	Comm/Dresdner/JPM/UBS
Bancomer(l)‡	300	Apr 1999	(l)	100.00	-	-	WestLB
Deutsche Finance Netherlands	250	Nov 2000	5.50	101.62	5.045	-	Deutsche Morgan G'fell
Oest Kontrollbank(m)	250	Dec 1999	5.00	100.14R	4.965	+3(7%-99)	Paribas/SBC Warburg
Republic of Argentina	500	Apr 2005	11.25	99.47R	11.34	+475(6%-2005)	Deutsche Morgan G'fell
Bank Austria	250	Apr 1999	4.50	99.6562R	4.552	+13(5¾%-99)	WestLB
DePfa Bank	500	Apr 1999	4.625	99.84R	4.683	+34(5¾%-99)	HSBC Trinkaus
GZB‡	300	Apr 2002	(n)	100.04	-	-	DG Bank
Republic of Iceland‡	250	Apr 2001	(o)	100.00R	-	-	Citibank
Dresdner Finance(C)	100	Jan 2001	5.25	100.87	5.035	-	Dresdner Bank-KB
European Investment Bank(D)	300	Dec 1999	4.75	99.95R	4.802	flat(7%-99)	WestLB
YEN							
La Sirena No 13(D,s)★	10bn	Jul 1999	2.10	100.00R	-	-	Merrill Lynch Intl
SWISS FRANCS							
Sea-All Oil Co(t)§★	60	Mar 2000	0.375	100.00	-	-	Credit Suisse
Helaba Finance(E)	400	Dec 2000	3.75	[illegible]	3.139	-	Credit Suisse
Bayerische Landesbank(E)	180	Mar 2001	4.00	103.35	3.251	-	Merrill/Zürcher KB
Asfinag(F)	300	Apr 2004	4.375	102.90	3.945	-	Credit Suisse
Finance for Danish Ind(G)	100	Aug 1999	3.25	102.125	-	-	Bqe Paribas (Suisse)
Inter-American Dev Bank(H)	200	Nov 2005	4.50	102.375	[illegible]	-	SBC/UBS
[illegible]	125	Dec 1999	3.25	102.40	-	-	Credit Suisse
STERLING							
Royal Bank of Scotland(u)	125	undated	9.25	99.254R	9.368	+105(7½%-06)	Goldman Sachs Intl
LGT Finance(v)	[illegible]	Dec 2006	8.75	98.24R	8.875	+53(7½%-06)	UBS
TAGS No 1, Class A1(E1)‡	65	Sep 2037	(E3)	99.95R	-	-	NatWest Capital Mkts
TAGS No 1, Class A2(E3)‡	253	Sep 2037	(E4)	99.91R	-	-	NatWest Capital Mkts
GUILDERS							
Republic of Austria	1.5bn	Apr 2003	6.25	100.00R	6.250	+8(6¾%-03)	ING Barings
Rabobank Nederland	500	May 2001	5.75	99.88R	5.776	[illegible]	Rabobank Nederland
Finance for Danish Industry	125	Apr 2002	(r)	100.325R	6.095	+17(k)	Kredietbank Intl Group
Akzo Nobel	350	Apr 2001	5.75	99.45R	5.880	+30(6¼%-01)	ING Barings
FRENCH FRANCS							
Abbey Natl Treasury Services	2bn	Apr 2006	6.75	99.111R	6.876	+18(7¼%-06)	Banque Paribas/CDC
BNG	3bn	Apr 2006	6.75	99.768R	6.783	+10(7¼%-06)	BNP/CDC/SBC Warburg
Compagnie Bancaire‡	1bn	Apr 1998	(l)	100.00R	-	-	CCF
KfW International Finance	2bn	Apr 2006	6.75	99.16R	6.855	+7(k)	Société Générale
LUXEMBOURG FRANCS							
CCBP	2bn	May 2000	5.75	102.60	5.016	-	BCEE/BIL
SNCF(q)	3bn	Dec 2001	6.00	102.80	5.46	-	BIL/Kredietbank Lux
ITALIAN LIRE							
Deutsche Bank Finance	200bn	Apr 1998	9.25	100.955	8.709	-	Deutsche Morgan G'fell
AUSTRALIAN DOLLARS							
GECC	100	Apr 1998	8.00	100.77	7.571	-	Hambros Bank
New Sth Wales Treasury Corp	100	Apr 2002	8.75	101.29	8.467	-	Toronto Dominion Bank
CANADIAN DOLLARS							
Kingdom of Sweden‡	100	Dec 2000	7.125	99.86R	7.173	+7(7½%-00)	ABN Amro Hoare Govett
Oest Kontrollbank(q)	[illegible]	Dec [illegible]	7.00	99.35R	7.15	+3(7½-01)	CIBC Wood Gundy
ESCUDOS							
Kingdom of Sweden‡	10bn	Apr 2001	(m)	100.00	-	-	Banco ESSI
HONG KONG DOLLARS							
World Bank	1bn	Apr 2001	7.05	100.00	7.05	+27(HK 5yr)	IBJ Asia

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. §Convertible. ‡Floating-rate note. ♦With equity warrants. ★Unlisted. R: fixed re-offer price. [illegible]

هكذا من الأصل

THE WEEK AHEAD

UK COMPANIES

TODAY
COMPANY MEETINGS:
French Property Tst, 1, Angel Court, Throgmorton Street, E.C., 12.00
Prospect Inds, Ferriby Hall, North Ferriby, North Humberside, 10.00
Ramsdens (Harry), Harry Ramsdens Restaurant, White Cross, Guiseley, 11.00
Temple Bar Inv Tst, Watermens Hall, 18, St Mary at Hill, E.C., 11.00
BOARD MEETINGS:
Finals:
Alexon
Bourne End Properties
Caldwell Invs
Capital & Regional Properties
Dmatek
Forth Ports
Hodder Headline
low
Inchcape
Isle of Man Steam Packet
ITM
Mansfield (John)
Moorfield Estates
Morgan Crucible
Nester BNA
New Guernsey Sec
Newport Hldgs
Page (Michael)
Plasmec
Scotia
Simon Eng
Tele-Cine Cell
Taylor Nelson
Thompson Clive Invs
Travis Perkins
T & S Stores
Vero
Waterford Foods
Interims:
Abtrust Latin American Inv Tst
Group Chez Gerard
Prolific Income
Tay Homes
UDO Hldgs

TOMORROW
COMPANY MEETINGS:
Gardiner, Abacus Court, 6, Minshull Street, Manchester, 10.30
General Cons Inv Tst, 49, Hay's Mews, W., 3.00
Greenfriar Inv Tst, 3, Finsbury Avenue, E.C., 2.15
Trust of Property Shares, Durrant House, 8-13, Chiswell Street, E.C., 11.00
BOARD MEETINGS:
Finals:
American Tst
Arcolectric
Barr & Wallace Arnold
Booth Inds
Carnes
Capital Inds
Charter
Churchill China
Clinical Comnputing
Country Casuals
Cussins Property
EBC
Emerald Energy
FBD Hldgs
Fitch
Glenchewton
Golden Vale
Hamleys
Lamont
Meggitt
P & O
Servomex
Speciality Shops
Taylor Woodrow
Thornton Asian Emerging
United Carriers
Wolstenholme Rink
Zambia Cons
Interims:
Baillie Gifford Japan Tst
Burn Stewart Distillers
Gearhouse
Lloyd Thompson
Manchester United
Millwall
Pressac
Scottish Metropolitan Property
Scottish Oriental Smnaller Co's Tst
Upton & Southern
Wescol

WEDNESDAY MARCH 27
COMPANY MEETINGS:
Allied Textile, Forte Crest Hotel, Clifton, Brighouse, West Yorkshire, 12.00
Bullough, The Courtyard, 26, Euston Centre, Euston Road, N.W., 10.00
Burlington, Honourable Artillery Co., Armoury House, City Road, E.C., 11.30
Domnick Hunter, Mint House, 77, Mansell Street, E., 10.00
Edinburgh Java Tst, Donaldson House, 97, Haymarket Terrace, Edinburgh, 3.00
GWR, Hilton National Hotel, Lydiard Fields, Great Western Way, Swindon, 1.00
Jupiter Int Green Inv Tst,197 Knightsbridge S.W 6.30
Mercury World Mining Tst, Glaziers Hall, 9, Montague Close, London Bridge, S.E., 3.00
Rights & Issues Inv Tst, 66 Wilson St E.C. 12.00
SEP Indl, Chartered Insurance Institute, 20, Aldermanbury, E.C., 12.00
Securicor, Richmond Hill Hotel, Richmond Hill, Surrey, 12.30
Security Services, Richmond Hill Hotel, Richmond Hill, Surrey, 12.15
Updown Inv, 12 Tokenhouse Yard E.C. 11.45
BOARD MEETINGS:
Finals:
Asda Property
Bowthorpe
Brake Bros
British Fittings
Cakebread Robey
Caradon
Croda Int
Dartrontech
EW Fact
Epwin
Fife Indmar
Healthcall
Higgs & Hill
Independent Newspapers
Johnston Press
Kingfisher
Monument Oil & Gas
Nichols (JN)(Vimto)
Quicks
Russell (Alexander)
Rutland Tst
Sherwood
Silvermines
TLS
Tibbett & Britten
Transtec
Interims:
Barratt Devs
Bridport-Gundry
Cooper (Frederick)
Graystone
HTR Japanese Smaller Co's
Thorpe (FW)

THURSDAY MARCH 28
COMPANY MEETINGS:
Baring Tribune Inv Tst,
Cardiff Property, 56, Station Road, Egham, Surrey, 12.00
Continental Assets Tst, 1, Charlotte Square, Edinburgh, 12.30
Gresham Computing,Mitchell House, Brooke Ave, Warsash, Southampton, 10.00
Kleinwort Charter Inv Tst, 10, Fenchurch Street, E.C., 12.30
Nightfreight, Tranmere Rovers FC, Birkenhead, 12.00
Throgmorton Tst, 155, Bishopsgate, E.C., 12.00
Warrants & Value Inv Tst, Caledonian Hotel, Edinburgh, 12.00
BOARD MEETINGS:
Finals:
Allnatt London Properties
Andrew Sykes
Ash & Lacy
Ayrshire Metal Products
BLP
Baird (Wm)
Blue Circle
Booker
Brammer
Bridon
Eyecare Products
Gaskell
Graseby
Johnston Grp
Kingspan
Macfarlane
Martin Currie Pacific
Morrison (W) Supermarkets
Next
Norcor
Portmeirion Potteries
QS Hldgs
Queens Moat Houses
RJB Mining
Redland
Roskel
Senior Eng
Slough Estates
Interims:
Dowding & Mills
Edinburgh Dragon Tst
Estates & Agency
F & C US Smaller Co's

FRIDAY MARCH 29
COMPANY MEETINGS:
Beale, Swallow Highcliff Hotel, Bournemouth, 2.30
Seacon, 38, West Ferry Road, E., 12.00
BOARD MEETINGS:
Finals:
Brixton Estate
Calor
Garton Eng
Horace Clarkson
Hunting
Inch Kenneth Kajong
Stanford Rock
Streamline Hldgs
Unicorn Int
Interims:
QR (Hldgs)
TR Far East Inc Tst

Company meetings are annual general meetings unless otherwise stated.

Please note: Reports and accounts are not normally available until approximately six weeks after the board meeting to approve the preliminary results.

DIVIDEND & INTEREST PAYMENTS

TODAY
ABF Invs. 5½% Unsec. Ln. 87/02 1.375p
Do. 7½% Unsec. Ln. 87/02 1.875p
All Nippon Air.6.35% Nts. 2000 Y635,000
Bikuben Giro. Sub. FRN. 2000 $3,494.65
Boots 10½% Bds. '7 £2,531.25
Brit. Funds 8% Treas '9 £4
Brit. Land Co. 8⅞% Bds. '23 £443.75
Do. 12½% Bds. 2016
Charlwood Alliance 7½% Uns. Ln. 1.875p
Compass 5.15p
East Midland Elect. 12% Bds. '16 £1,200
Eksportfinans A\S Sub. FRN. '02 $28.78
Fuji Bank Intl. Fin. Sub. Gtd. FRN. Y144,603
Do. Undtd. Sub. Gtd. VRN. Y21,091
Furukawa Elect. FRN '98 Y17,382
Glory 5.6% Bds. 2000 Y560,000
Guaranteed O'seas Ln. Fin. Secd. FRN. '07 £3,519.30
HIH Cap. 7½% Conv. Cap. Bds. '06 £187.50
Japan Air. Terminal 6.4% Bds. '99 Y640,000
Manchester 3% Red. Consd. £0.75
Marston Thompson 10¼% Deb. 2012 £5.125
Met. Water Board 2¾% Deb. '97 £1.375
Midlands Elect. 6.125
Mountview Estates 12p
Natl. Power 6¼% Conv. Sub. Bds.'08 £31.25
New Zealand 11½% '14 £287.50
Northern Elect 12.661% Bds '99 £161.78
NORWEB 8.875% Bds '26 5.719p
Nottingham Water Ann. £1.75
Do Water Ann. £0.625
NSK 2.8% Bds. '98 Y280,000
3.1% Bds '98 Y310,000
Petaling Tin M$0.03
Renold 8% Deb. 1991/6 £4
Royal Insurance 9⅝% Sub. Bds. '03 £6.25
Sabre Intl. Series P, VRN. '98 Y18,619
Severn Trust 11⅝% '01 £581.25
Svensk Ex. AB 8% Nts '03 £800
Sweden 8⅝% Bds. 2016 $431.25
Do. 8¾% Bds. 1996 $437.50
Toda Dual basis Nts. '98 Y3,000,000
Tokyu Land 5.3% Bds. '98 Y530,000
Trafalgar House Unsec. Ln. 94/99 £4
Do. 9½% Unsec. Ln. 00/05 £4.75
Welsh Water 10¾% Bds. 2002 £537.50
Wynnstay Props 8.25% Conv. Ln. 92/97 £4.000685

TOMORROW
Australian Inds. Dev. 8% Bds. '96 Y80,000
Brit.Funds 12¼% Exch. '99 £6.125
Do. 13½% Treas. £6.75
Brit. Gas 10⅞% Bds. '01 £108.75
Brit. Land 6% sub. Bds £30
Brit. Tele. 8⅝% Bds '20 £86.25
Chubu Elect. Power 7% Nts. '96 $350
Daily Mail and Gen. Tst. 5¾% Ex. Bds. '03 £28.75
Expamet Intl. 1.35
Finland 9¾% Nts. '97 £97.50
Fletcher King 0.5p
Hong Kong Invs. Tst. 0.75p
ICC Bank IR15p
Isetan 6.4%Nts. 1997 Y640,000
Ishihara Sangyo 5.35% Bds '98 Y535,000
Do. 5.7% Bds '03 Y570,000
Japan Devl. Bank 8½% Gtd. Nts. '96 $425
Kajima 6.35% Bds. 1998 Y635,000
Do. Bds. '97 Y635,000
Lawrence 1.5p
National Grid 7⅜% Bds. '98 £737.5
Nippon Tele. & Tele. 6⅞% Nts. '97 $68.75
North Brit. Housing Ass. 8⅝% Gtd. Sec. 16/20 £4.3125
Oxford Instruments 1.9p
PowerGen 8⅞% Bds. '03 £887.5
Ramsden's (Harry) 4p
River & Merc. Geared Cap. & Inc. Tst. 1.5p
Vaux Grp. 9.875% Deb. 2015 £4.9375
Do. 10¾% Deb. 2019 £5.375
Do. 11¾% Deb. 2010 £5.875
Yorkshire Elect. 11.88p

WEDNESDAY MARCH 27
Abbey Natl. First Cap. Sub. FRN. '04 C$33.18
Brit. Funds 8% Treas. 2013 £4
Cable & Wire. Intl. Fin. 10⅜% Gtd. Bds. '02 £1,037.5
Daiwa Overseas Fin Gtd FRN. '02 $9,250
Finsbury Underwriting Invs. Tst. 0.6p
First Private Asset Bkd. FRN. '21 £2,066.77
Senior Asset Bkd. FRN. '21 £1,496.11
Greenfair Invs. Co. 4.8p
Halifax Bldg. Soc. Sub. VRN. £174.35
Halliburton $0.25
Marine Mid. Bank Sub. Cap. Fm '96 $146.93
Marubeni Intl. Fin. 6.4% C '98 Y6,400,000
Nobo Grp. 2.2p
Scottish Life Ass. 7⅛% Unsec. 97/02 £3.5625
Southern Elect. 10¼% Bds. '02 £1,025
Sters 1 FRN. Mort. Bkd. Sec. '29 £127.22
Tokai Bank Ned. Fixed Gtd. Nts '02 $9,000

THURSDAY MARCH 28
Barings BV Gtd. FRN. '01 $15.30
Britannia Building Society FRN. '97 £167.41
Chelsea Building Society Sub. FRN. '98 £35,542.12
Cheshire Building Society Fltg. Int. Bear. £45.99
Impala Platinum R0.30
Law Debenture 4½% Deb. £1.45712
London Elect. 8% Bds '03 £80
London Pacific $0.18
Mazda Motor 4.05% Bds. '02 Y405,000
Nationwide Building Society 11¼% Nts. '97 £562.5
Updown Invs. 15p

FRIDAY MARCH 29
Abbey Natl. First Cap. Sub. FRN. '02 $29.35
Abbet Nat. Treas. Gtd. Cap FRN. '96 £176.08
Acres (No.1) Com.Mort. Bkd. FRN. £195.49
Alexander & Alexander $0.025
Do. Class 'C' 0.018p
Anglo Finance (No.1) Mezz. Secd. FRN. '01 £1,731.46
Do. Sen. Secd. FRN. 2001 £724.41
Anglo Finance (No.2) Mezz Secd FRN. 2004 £1,818.21
Do. Sen. Secd FRN. 2004 £910.89
Australian Inds. Dev. 10½% Bds. '99 £105
BAA 5¾% Conv. Bds. 2008 £29.56
Bank fur Arbeit Sub. FRN. 2000 $806.48
Bass Inv. 7¾% Unsec. Ln. 92/97 £3.6875
Bass 10⅜% Deb. '16 £5.1875
Do. 10.54% Deb. 95/99 £5.325
Do. 4½% Unsec. Ln. 92/97 £2.25
Do. 7¾% Unsec. Ln. 92/97 £3.875
BCP Cap. Fin. Series A FRN. Gtd Non-Vtg. $0.53
Black && Decker 0.12
Bridon 7% Non-Cm. Prf. 1.225p
Brit. Airways Cap. 9¾% Conv. Cap. Bds. '05 4.881644p
Brit.-Am. Tobacco 5% Cm. Prf. 1.75p
Brit. Funds U.K. FRN. '96 $137.45
Cardiff Property 1.9p
Cheam Grp.3.15% Cm. 1st Pf. 1.575p
Do. 4.9% Cm. Pf. 2.45p
Do. 7% Cm. Pf. 3.5p
Collateralised Mort. Secs. (No.8) FRN. 2028 £100.17
Do. (No. 11) FRN. '28 £93.31
Courtaulds 8½% Unsecured Loan 00/05 £3.875
Dunyst Invs. Tst. 0.49p
East Midlands Elect. 120p
Edinburgh Java Tst. 0.16p
Eng. & Scottish Investors 1.9p
Do. 'B' 0.010938p
Do. 3.75% Cm. Pf. £1.875
Eurodis Electron 7.5% Conv. Pf. 1.85p
Finsbury Growth Tst. 5% Cm. Pf. 2.5p
Fleming Overseas Invs. Tst. 1.5p
Fulcrum Invs. Tst. 2.65p
Gartmore Micro Index Tst. 1p
General Electric 3.1p
Gracechurch Mort. Fin. Mort. Bkd. FRN. '19 £777.31
Great Universal Stores 5p
Guinness Flight Extra Inc. Trust 1.25p
Do. Units 1.25p
Hardys & Hanson 6% Cm. 1st Pf. 2.1p
Hewetson 0.75p
Homer Finance (No.3) Mort. Bkd. FRN '36 £60.48
Do. Class A2 £168.14
Do. Class A3 £171.25
Do. Mezz. Mort. Bkd. FRN. '36 £185.54
Hotspur Invs. 7 5p
Irish Continental IR3p
Italy (Republic of) FRN. '98 $78.04
Jupiter Intl. Green Invs. Tst. 2.05p
Do. Units 2.05p
Land Secs. 6¼% Mort. Deb. 93/98 £3.125
Do. Mort. Deb. 96/2001 £4.50
Do. Mort. Deb. 2025 £5
Do. Mort. Deb. 2027 £5
Do. 6⅞% Unsec. Ln. 92/97 £3.4375
Do. 9¼% Bds 2007 £95
Limited Inc. $0.10
Lloyds Bank Und. Sub. 5.57% Y2,785,000
Lloyds TSB Grp.FRN £177.46
London Cremation 10% Cm. Pf. 3.5p
Lookers 8% Conv. Cm. Red. 4p
Mansfield Brew. 11½% Deb. '10 £5.75
National Grid 8% Bds. '06 £11.33
Nationwide Bldg. Soc. 8⅝% Sub. Nts. '18 £86.25
NatWest Smaller Co. Invs. Tst. 1.125p
NHL (No.3)Sec. £30.66
Do. Class A2 FRN 2036 £171.25
Do. Mezz. Mort. FRN. '36 £185.54
NHL (1) Sec. Def. Mort. FRN. '28 £1.47
Nihon Doro Kodan 5⅞% Gtd. Bds 2000 $293.75
Northern Ireland Elect. 5p
Northern Telecom $0.11
Primadona 2.5p
Regby Gtd. FRN. 1997 $4,440.83
Residential Prop. Secs. A1 FRN '25 £237.89
Do. A2 FRN. '25 £1,869.36
Do. B FRN. 2025 £1,942.45
Royal Bank Canada Floating Rate Debs. '05 $43.30
Royal Bank Scot.A Non-Cm. Pf. $0.703125
Do. Series B Non- Cm. Pf. $0.70
Do. Series C Non-Cm. $Pf. $0.59375
St. Davids Invs. Tst. 3p
Schroder Split Fund 2.15p
Seagram $0.15
Shires High-Yielding Smaller Co. Tst. 1.95p
Temple Bar Invs. Tst. 9.65p
Throgmorton Dual Tst.1.75p
Tops Estates 0.672p
Trafford Park Ests. 11¾% Mort. Deb. 07/10 £5.875
Unilever Cap. 9¼% Gtd. Nts. 2000 $92.50
Wells Fargo Fltg. Sub. Nts. 2000 $43.80
Westpac Banking Perp. Cap. FRN $307.76
Wilkinson & Riddell 2.5p
Wintrust 4.02p
Woolwich Bldg. Soc. FRN '96 £157.73
Yorkshire Elect. 9⅝% Bds.2005 £57.98

SATURDAY MARCH 30
Brit. Assets Tst 4½% Pf. 1.575p
Do. 5% 1.75p
Brit. Funds 15½% Treas. '98 £7.75
Do.7¼% Treasury 1998 £3.625
Gartmore Shared Equity Tst. 2.4p
Investors Capital Tst. 7¼% Deb. 1992/7 £3.625
Ireland (Republic of) 8¾% Cap. '12 IR£4.375
Do. 8½% Exch. Bds '96 IR4.25
Do. Var. Rate Gov. Bd. '96 IR1.40
Ivory & Sime Ent. Cap. Conv. Unsec. Ln. 2000 £2
Scottish National Tst. Pf. 3.893839p
Do.10% Deb. 2011 £5

SUNDAY MARCH 31
Allied Textile 4.8p
Andrews Sykes 3.5p
API Grp. 3.85% Cm. PF. 1.925p
Assoc. Brit. Eng. 4.9% Cm. Pf. 2.45p
Do. 8% Conv. Pf. 4p
Atlantic Mar. 12% Conv. Unsec. 1991/7 £6
Audax Props. 11% Mort. Deb. '21 £5.50
Automotive Products 3.5% Cm. Pf. 1.75p
Do. 4.55% 2nd Pf. 2.275p
Do. 9% Cm. Pf. 4.5p
Bemrose 7½% Cm. Pf. 2.625p
Beristord 5% Conv. Unsec. '15 £2.50
Blue Circle Inds. 5¾% 2nd deb. 84/09 £2.875
Boddington 4% Deb. £2
Henry Boot 5.25% 2.625p
Bristol Water 11.20% Red. Deb. 2005/9 £5.60
Do. 11¾% Red. Deb. '04 £5.875
Do. 12½% Red. Deb. '04 £6.25
Brit. Invs. Tst. 11.125% Secd. Deb. '12 £5.5625
Brit. Land 10½% Defd. Mort. Deb. 19/24 £5.25
Do. 9⅜% Mort. Deb. '08 £4.6875
Do. 11⅜% Mort.Deb. 19/24 £5.6875
Brixton Ests. 11.75% Mort Deb. '18 £5.875
Brockhampton 9.5% Red. Pf. 1996 4.75p
Brown (J.) 4⅞% Secd. Ln. '03 £2.4375
Do. 5⅝% Secd. Ln. '03 £2.8125
Cable and Wire. Intl. Fin. 7% Conv. Unsec. Ln. '08 £3.50
Cap. & Counties 6¼% Mort. Deb. 1993/8 £3.125
Do. 6¾% Mort. Deb. 1994/9 £3.375
CFF 14¾% Gtd. Ln. 2007 £368.75
Churchbury Estates 9% Unsec. Ln. 2000 £4.50
City Site Estates 10.5% Mort. Deb. '17 £5.25
Cleveland Place 5% Red. Deb. 2000 £2.50
Do. 12½% Red. Deb. '08 £6.0625
Coats Viyella 4.9% Cm. Pf. 2.45p
Commercial Union 8¾% Cm. Pf. 4.1875p
Courtaulds 5½% Unsec. Ln. 1994-8 £1.367486
Courts 5.9% Cm. Pf. 2.95p
De Beers Centenary Fin. 8E% Gtd. Unsec. '09 £4.125
De La Rue 2.45% Cm. Pf. 1.225p
Drummond 8% Cm. Pf. 2.8p
Eclipse Blinds Conv. Pf. 3.375p
Do. Red. Pf. 3.375p
Edinburgh Small Co. Tst. 7¾% Deb. '23 £3.875
Emhart Co. 6% Cm. Pf. 2.1p
Finsbury Tst. 5.25% Cm. Pf. 2.625p
Firth Rixson 11.05% Cm. Conv. Pf. 5.525p
Fisons 5⅞% Unsec. 2004/9 £2.9375
Foreign & Col. Emerging Mkts. Invs. Ts. 6½% Conv. Ln.'10 £3.25
Foreign & Col. Invs. Tst. 1.75p
Forminster 5.75p
GATX $0.45
Grainger Tst. 10.5% Mort. Deb. '24 £5.25
Do. 11¾% Mort. Deb. £5.875
Great Portland Ests. 9.5% Mort. Deb. '16 £4.75
Do. 10¾% Mort. Deb. '21 £5.375
Greenalls 8½Cm. Pf. 4p
Greenhaven Secs. 7½% Unsec. Ln. 91/6 £3.75
Haco 10⅝% '17 £5.3125
Halma 11% Cm. Pf. 5.5p
Hampton Trust 10½% Mort. Deb. '25 £5.25
Haslemere Estates 10¼% Mort. Deb. 98/2003 £5.125
Hill & Smith 14% Mort. Deb. 2000/03 £7
Housing Fin. 5% Deb. 2027 £2.50
Do. 7% Deb. 2009 £3.50
Do. 7% (Series 2) 2009 £3.50
Hoyle (J.) 5% Cm. Pf. 1.75p
Inco Eng. Products 11% Deb. 96/2001 £5.50
INVESCO Eng. & Intl. Tst. 5½% Cm. Pf. 1.925p
Do. 8.875% Cm. Pf. 4.4375p
Do. 10% Deb. '14 £5.3125
Investment 6% Cm. Pf. 1.05p
Investment Trust of Investment Tsts. 2.2p
Jasmin Conv. Unsec. 1999 £8.49p
Johnston 10% Cm. Pf. 5p
Jones Stroud 4p
Jupiter Split Tst. 6.6p
Do Package Units 39.6p
Kelsey Inds. 11¼% Cm. Pf. 5.625p
Land Securities 7% Conv. Bds. 2009 £35
Leigh Interests 6% Conv. Red. Pf. 3p
Lon. Merchant Secs. 10% Mort. Deb. '18 £5
Lonrho 10¼% Mort. Deb. 97/2002 £5.125
Majedie Invs. 9.5% Deb. '20 £4.75
Morland 5% Cm. Pf. 1.75p
Mucklow (A & J) 13¼% Mort. Deb. 2000/06 £6.625
NEC Finance 10⅝% Deb. '16 £5.3125
Do. 13⅝% Deb. '16 £6.8125
Newcastle-Upon-Tyne 11¼% Red. '17 £5.625
New Throgmorton Tst. 12.6% Deb. '08 £6.30
Oldham Met. Council 12.4% Red.'22 £6.20
Peel South East 8¼% Unsec. Ln. 87/97 £4.125
Pet. Mexicanos 14½% Ln. 2006 £7.25
Plantation & Gen. Invs. 12% Conv. Unsec. Ln. '01 £6
P & O Property 7½% Mort. Deb. 97/2002 £4
PUBCO 11¼% Deb. '08 £5.625
Readicut International 6% Cm. Pf. 1.05p
Do. 5¾% Cm. Pf. 2.0125p
Reckitt & Colman Cap. Fin. 9.5% Conv. Cap. Bds '05 4.86p
Rights and Issues Investment Tst. 0.625p
Do. Income shrs .7.5p
RIT Cap. Partners 2.5% Conv. Unsec Ln. 2000 £1.25
Scholl 5¼% Conv. red. Prf. 08/11 2.625p
Do. 8⅞% Sen. Pf. 2001/5 4.4375p
Scottish Mort. & Tst. 8%-14% Deb. '20 £7
Securities Trust of Scot. 4½% Cm. Pf. £1.575
Do. 12% Deb. 2013 £6
S.E.P. Industrial 1p
Shaftsbury 8.5% Mort. Deb. '24 £4.25
Shires Investment 4.2p
600 Grp. 3.15% Cm. Pf. 1.575p
Do. 4.55% Cm. 2nd Pf. 2.275p
Do. 11% Unsec. Ln. 92/97 £5.50
W.H.Smith 5.75% Cm. Pf. 2.875p
Smith St. Aubyn 6% Non-Cm. Pf. 2.1p
S.A. Breweries 6.2% Gross Cm. Pf. R0.062
Stag 11% Cm. Pf. 5.5p
Stand. & Chartered 12⅞% Sub. Unsec. Ln. 2002/7 £6.4375
Staveley Inds. 5¼% Cm. Pf. 1.8375p
Sterling Inds. 5½% Cm. Pf. 1.925p
S & U 6% Cm. Pf. 2.1p
Tate & Lyle 6½% Cm. Pf. 2.275p
Do. 8% Unsec. Ln. 2003/8 £4
Do. 10¾% Unsec. Ln. 2003/8 £5.375
THFC 5.65% 2020 £3.4685
Three Valleys Water 4% Conv. Deb. £2
Tops Estates 7½% Conv. Unsec. '20 £3.75
Tor Investment Tst. 4¾% Cm. Pf. 1.6625p
Do. 6% Cm. Pf. 2.1p
Transport Devl. 9¼% Unsec. Ln. 96/2000 £4.625
Trinity Care 7% 'B' Conv. Red. Pf. 3.5p
Triplex Lloyd 5½% Cm. Pf. 1.925p
Unigate 5% Unsec. Ln. 1991/6 £2.50
Do. 6½% Unsec. Ln. 1991/6 £3.25
Vickers 5% Non-Cm. £1.75
Do. 5% Non-Cm. 1.75p
Do. 5% Cm. Pf. 2.5p
Volex 7% Cm. Pf. 2.45p
VSEL 11% Unsec. Ln. '98 £5.50
Warburg (S.G.) 7¾% 3.8125p
Westland Grp. 12⅜% Deb. '08 £6.1875
Whitbread 4½% red. Deb. 99/2004 £2.25
Williams Hldgs. Conv. Cm. Red. Pf. 4p
Do. 10.75% Cm. Pf. 5.375p
Wintrust 5.75% Conv. Cm. Pf. 2.875p
Do 10.5% Cm. Pf. 5.25p

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Mar 22 / Sch)

BELGIUM/LUXEMBOURG (Mar 22 / Frs.)

CZECH REP (Mar 22 / Koruna)

DENMARK (Mar 22 / Kr)

FINLAND (Mar 22 / Mka)

FRANCE (Mar 22 / Frs.)

GERMANY (Mar 22 / Dm.)

GREECE (Mar 22 / Drachmae)

ITALY (Mar 22 / Lire)

NETHERLANDS (Mar 22 / Fls.)

NORWAY (Mar 22 / Kroner)

POLAND (Mar 22 / Zloty)

PORTUGAL (Mar 22 / Escudo)

SPAIN (Mar 22 / Pta.)

SWEDEN (Mar 22 / Kronor)

SWITZERLAND (Mar 22 / Frs.)

TURKEY (Mar 22 / TL Lira)

PACIFIC

JAPAN (Mar 22 / Yen)

AUSTRALIA (Mar 22 / Aus$)

HONG KONG (Mar 22 / H.K.$)

INDONESIA (Mar 22 / Rupiah)

MALAYSIA (Mar 22 / MYR)

NEW ZEALAND (Mar 22 / NZ $)

SINGAPORE (Mar 22 / S$)

SOUTH KOREA (Mar 22 / Won)

TAIWAN (Mar 22 / TW $)

THAILAND (Mar 22 / Baht)

AFRICA

SOUTH AFRICA (Mar 22 / Rand)

NORTH AMERICA

CANADA

TORONTO (Mar 22 / Can $) 4 pm close

MONTREAL (Mar 22 / Can $) 4 pm close

INDICES

	Mar 22	Mar 21	Mar 20	1995/96 High		Low	
Argentina							
General(29/12/77)	16330.21	16020.47	15744.61	19191.69	31/1/96	8821.09	9/3/95
Australia							
All Ordinary(1/1/80)	2249.0	2262.9	2240.4	2223.40	4/3/96	1823.30	8/2/95
All Mining(1/1/80)	1040.6	1050.3	1044.5	1099.30	4/3/96	785.30	8/2/95
Austria							
Credit Aktien(30/12/84)	370.33	371.01	370.74	386.42	2/1/95	328.60	27/10/95
Traded Index(2/1/91)	1057.53	1060.65	1063.64	1094.98	7/2/96	882.16	23/10/95
Belgium							
BEL20(1/1/91)	1671.25	1686.78	1682.02	1799.21	7/3/96	1271.48	9/3/95
Brazil							
Bovespa(29/12/83)	50512.0	49787.0	48884.0	54108.00	2/2/96	21080.00	9/3/95
Canada							
Metals Minls(1975)	5335.86	5346.12	5381.70	5483.82	19/3/96	3808.60	1/3/95
Composite(1975)	4952.03	4948.74	4981.34	5089.80	14/2/96	3891.41	30/1/95
Portfolio(4/1/83)	2418.32	2412.38	2420.05	2466.67	8/2/96	1863.38	30/1/95
Chile							
IGPA Gen(31/12/80)	5396.17	5398.10	5414.52	6380.16	11/7/95	4878.60	9/3/95
Denmark							
CopenhagenSE(3/1/83)	380.69	380.15	378.31	381.38	13/2/96	330.01	29/3/95
Finland							
HEX General(28/12/90)	1867.68	1870.54	1881.18	2332.27	14/9/95	1586.30	23/3/95
France							
SBF 250(31/12/90)	1360.55	1350.71	1346.36	1372.31	4/3/96	1184.41	13/3/95
CAC 40(31/12/87)	1974.35	1976.89	1969.79	2024.09	1/2/96	1721.14	23/10/95
Germany							
FAZ Aktien(31/12/58)	887.84	885.15	883.00	887.84	22/3/96	708.87	30/3/95
Commerzbank(1/12/53)	2568.6	2562.3	2555.6	2568.60	22/3/95	2018.70	30/3/95
DAX(30/12/87)	2504.02	2504.12	2485.90	2504.12	21/3/96	1910.98	23/3/95
Greece							
Athens SE(31/12/80)	991.50	981.40	977.51	1017.98	4/3/96	787.15	10/3/95

US INDICES

INDEX FUTURES

■ TOKYO – MOST ACTIVE STOCKS: Friday, March 22, 1996

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Tobu Railway	16.2m	675	-9	Oki Elect Ind	6.3m	814	-40
Bank Of Tokyo	8.9m	1590	-90	Tokyu Corp	5.9m	788	-2
Nippon Sd Corp	8.3m	352	+4	Chiba Bank	5.8m	836	-4
Keihin E Expr Ry	7.9m	637	-1	Japan Energy	5.6m	393	+4
Odakyu Ele Rail	7.5m	740	+2	NKK Corp	5.3m	302	+4

Prices supplied by Telekurs

NOTES – Prices on this page are as quoted on the individual [illegible] prices. Highs/Lows are based on data from Jan 1 1995. # Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all. † Priced in US $.

FT FREE ANNUAL REPORTS SERVICE

You can obtain the current annual/interim report of any company annotated with ♣. Please quote the code FT3185. Ring 0181 770 0770 (open 24 hours including weekends) or fax 0181 770 3822. If calling from outside UK, dial +44 181 770 0770 or fax +44 181 770 3822. Reports will be sent on the next working day, subject to availability.

هكذا من الأجل

CURRENCIES AND MONEY

POUND SPOT FORWARD AGAINST THE POUND

Mar 22		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	Day's Mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Bank of Eng. Index
Europe													
Austria	(Sch)	15.9250	-0.0381	171 - 328	15.9928	15.9158	15.885	2.3	15.8125	2.8	-	-	105.9
Belgium	(BFr)	48.5352	-0.0842	954 - 749	47.0350	46.4930	46.4302	2.7	48.2202	2.7	45.3002	2.7	108.2
Denmark	(DKr)	8.7451	-0.0166	420 - 501	8.7868	8.7417	8.7343	1.6	8.7097	1.7	8.6031	1.6	108.8
Finland	(FM)	7.0555	-0.0134	503 - 607	7.0840	7.0450	7.0511	0.7	7.0431	0.7	-	-	83.3
France	(FFr)	7.7703	-0.0104	669 - 737	7.8030	7.7682	7.7582	1.5	7.7349	1.8	7.6891	1.7	109.2
Germany	(DM)	2.2643	-0.0052	632 - 653	2.2756	2.2630	2.2595	2.6	2.2491	2.7	2.2047	2.6	110.2
Greece	(Dr)	370.148	-0.326	953 - 343	371.681	369.602	-	-	-	-	-	-	66.3
Ireland	(I£)	0.9713	-0.0018	706 - 720	0.9741	0.9705	0.9706	0.9	0.9691	0.9	0.9641	0.7	97.9
Italy	(L)	2398.51	+5.01	761 - 921	2411.03	2395.08	2406.76	-4.1	2421.86	-3.9	2474.56	-3.2	73.9
Luxembourg	(LFr)	48.5352	-0.0842	954 - 749	47.0350	46.4930	46.4302	2.7	48.2202	2.7	45.3002	2.7	108.2
Netherlands	(Fl)	2.5345	-0.0044	335 - 355	2.5460	2.5330	2.5286	2.8	2.5163	2.9	2.4846	2.8	108.3
Norway	(NKr)	9.8512	-0.013	435 - 588	9.9183	9.8237	9.8422	1.1	9.8231	1.1	9.7274	1.3	98.6
Portugal	(Es)	234.067	-0.458	935 - 180	235.224	233.734	234.482	-2.2	235.387	-2.3	-	-	95.4
Spain	(Pta)	190.292	-0.456	188 - 389	191.151	190.180	190.727	-2.7	191.547	-2.6	194.392	-2.2	82.0
Sweden	(SKr)	10.1613	-0.0741	516 - 710	10.3041	10.1488	10.1625	-0.1	10.1642	-0.1	10.1684	-0.1	89.0
Switzerland	(SFr)	1.8318	-0.0042	307 - 329	1.8394	1.8305	1.8256	4.1	1.8124	4.2	1.7572	4.1	114.4
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	83.9
Ecu	-	1.2238	-0.0001	230 - 246	1.2276	1.2227	1.2225	1.3	1.2195	1.4	1.2082	1.4	-
SDR†	-	1.05246	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.5347	-0.0025	343 - 351	1.5351	1.5342	-	-	-	-	-	-	-
Brazil	(R$)	1.5147	-0.002	142 - 151	1.5154	1.5132	-	-	-	-	-	-	-
Canada	(C$)	2.0911	-0.0023	903 - 919	2.0932	2.0870	2.0904	0.4	2.0867	0.6	2.0787	0.6	84.3
Mexico	(New Peso)	11.6008	-0.0059	947 - 069	11.6070	11.5872	-	-	-	-	-	-	-
USA	($)	1.5348	-0.0025	345 - 351	1.5366	1.5327	1.534	0.6	1.5324	0.6	1.5256	0.6	95.8
Pacific/Middle East/Africa													
Australia	(A$)	1.9759	-0.0002	749 - 769	1.9781	1.9735	1.9785	-1.5	1.9835	-1.5	2.0098	-1.7	90.9
Hong Kong	(HK$)	11.8658	-0.0191	635 - 687	11.8802	11.8513	11.8585	0.6	11.8469	0.7	11.8271	0.3	-
India	(Rs)	53.0274	-0.3939	403 - 145	53.3950	52.8130	-	-	-	-	-	-	-
Israel	(Shk)	4.7358	-0.0228	318 - 399	4.7576	4.7315	-	-	-	-	-	-	-
Japan	(Y)	163.832	+0.056	762 - 903	164.630	163.610	163.072	5.6	161.517	5.7	155.142	5.3	135.9
Malaysia	(M$)	3.9038	-0.0067	022 - 053	3.9122	3.9000	-	-	-	-	-	-	-
New Zealand	(NZ$)	2.2336	-0.003	323 - 348	2.2404	2.2321	2.2366	-2.7	2.2461	-2.6	2.2819	-2.2	107.5
Philippines	(Peso)	40.2271	-0.0425	982 - 580	40.2600	40.1951	-	-	-	-	-	-	-
Saudi Arabia	(SR)	5.7562	-0.0093	548 - 575	5.7626	5.7485	-	-	-	-	-	-	-
Singapore	(S$)	2.1636	-0.0048	624 - 648	2.1676	2.1616	-	-	-	-	-	-	-
South Africa	(R)	6.0195	+0.0033	160 - 230	6.0364	6.0128	-	-	-	-	-	-	-
South Korea	(Won)	1203.36	-2.34	305 - 367	1205.92	1201.79	-	-	-	-	-	-	-
Taiwan	(T$)	41.8985	-0.0152	888 - 082	41.9461	41.8427	-	-	-	-	-	-	-
Thailand	(Bt)	38.7691	-0.0631	461 - 920	38.8250	38.7240	-	-	-	-	-	-	-

† Rates for Mar 21. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Mar 22		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	J.P Morgan Index
Europe													
Austria	(Sch)	10.3759	-0.0087	728 - 790	10.4180	10.3720	10.3586	2.0	10.3224	2.1	10.1609	2.1	105.8
Belgium	(BFr)	30.3200	-0.0055	000 - 400	30.6100	30.2950	30.267	2.1	30.1605	2.1	29.68	2.1	107.7
Denmark	(DKr)	5.6985	-0.0015	970 - 000	5.7243	5.6870	5.6935	1.1	5.6835	1.1	5.706	-0.1	108.0
Finland	(FM)	4.5970	-0.0013	945 - 995	4.6147	4.5898	4.5905	1.7	4.5785	1.6	4.533	1.4	82.7
France	(FFr)	5.0628	+0.0015	615 - 640	5.0830	5.0610	5.0572	1.3	5.0475	1.2	5.0053	1.1	108.7
Germany	(DM)	1.4753	-0.001	749 - 757	1.4820	1.4747	1.4726	2.0	1.4677	2.1	1.4446	2.1	109.5
Greece	(Dr)	241.170	+0.16	090 - 250	242.040	241.000	242.845	-8.3	246.195	-8.3	260.17	-7.9	85.9
Ireland	(I£)	1.5802	+0.0004	793 - 810	1.5810	1.5765	1.5807	-0.3	1.581	-0.2	1.5704	0.6	-
Italy	(L)	1582.75	+5.8	280 - 290	1570.50	1580.30	1568.8	-4.6	1580.35	-4.5	1621.25	-3.7	73.4
Luxembourg	(LFr)	30.3200	-0.0055	000 - 400	30.6100	30.2950	30.267	2.1	30.1605	2.1	29.68	2.1	107.7
Netherlands	(Fl)	1.6514	-0.0002	510 - 517	1.6609	1.6508	1.6483	2.2	1.6421	2.3	1.6149	2.2	107.6
Norway	(NKr)	6.4186	+0.002	143 - 229	6.4610	6.3988	6.4156	0.6	6.4101	0.5	6.3736	0.7	97.8
Portugal	(Es)	152.500	-0.05	450 - 550	153.270	152.200	152.615	-2.5	153.405	-2.4	155.55	-2.0	95.4
Spain	(Pta)	123.985	-0.095	940 - 030	124.560	123.930	124.325	-3.3	124.985	-3.3	127.355	-2.7	81.8
Sweden	(SKr)	6.6205	-0.0374	155 - 256	6.7097	6.6116	6.6316	-2.0	6.6491	-1.7	6.6911	-1.1	86.0
Switzerland	(SFr)	1.1935	-0.0006	930 - 940	1.1985	1.1929	1.19	3.8	1.1827	3.6	1.1515	3.5	113.7
UK	(£)	1.5348	-0.0025	345 - 351	1.5366	1.5327	1.534	0.6	1.5324	0.6	1.5256	0.6	83.5
Ecu	-	1.2542	-0.0019	536 - 547	1.2554	1.2503	1.255	-0.7	1.2566	-0.8	1.2654	-0.9	-
SDR†	-	0.68439	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.0000	-	999 - 000	1.0000	0.9999	-	-	-	-	-	-	-
Brazil	(R$)	0.9869	+0.0003	868 - 870	0.9873	0.9860	-	-	-	-	-	-	-
Canada	(C$)	1.3625	+0.0008	622 - 627	1.3633	1.3612	1.3628	0.1	1.3626	0.0	1.3654	-0.2	83.7
Mexico	(New Peso)	7.5585	+0.0085	560 - 610	7.5850	7.5450	7.5608	-0.4	7.564	-0.3	7.5689	-0.1	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	96.6
Pacific/Middle East/Africa													
Australia	(A$)	1.2873	+0.002	870 - 878	1.2880	1.2863	1.2893	-1.9	1.2928	-1.7	1.3115	-1.9	82.4
Hong Kong	(HK$)	7.7317	+0.0002	312 - 322	7.7325	7.7309	7.7324	-0.1	7.7342	-0.1	7.7612	-0.4	-
India	(Rs)	34.6500	-0.2	000 - 000	34.7600	34.3900	34.7	-5.2	35.005	-5.3	36.475	-5.6	-
Israel	(Shk)	3.0856	-0.0098	835 - 877	3.0987	3.0820	-	-	-	-	-	-	-
Japan	(Y)	106.745	+0.21	720 - 770	107.180	106.680	106.3	5.0	105.4	5.0	101.86	4.8	136.5
Malaysia	(M$)	2.5435	-0.0015	430 - 440	2.5475	2.5410	2.5444	-0.4	2.5505	-1.1	2.574	-1.2	-
New Zealand	(NZ$)	1.4552	+0.0004	548 - 558	1.4580	1.4540	1.4583	-2.6	1.4641	-2.4	1.4887	-2.3	-
Philippines	(Peso)	26.2100	+0.015	950 - 250	26.2250	26.1950	-	-	-	-	-	-	-
Saudi Arabia	(SR)	3.7505	+0.0001	503 - 508	3.7506	3.7502	3.751	-0.1	3.7517	-0.1	3.755	-0.1	-
Singapore	(S$)	1.4097	-0.0008	092 - 102	1.4116	1.4090	1.4082	3.0	1.4002	2.7	1.3747	2.5	-
South Africa	(R)	3.9220	+0.0085	205 - 235	3.9325	3.9170	3.9508	-8.8	4.0023	-8.2	4.2255	-7.7	-
South Korea	(Won)	784.050	-0.25	000 - 100	785.000	783.700	787.05	-4.6	790.55	-3.3	809.05	-3.2	-
Taiwan	(T$)	27.2990	+0.0345	980 - 000	27.3100	27.2760	27.319	-0.9	27.359	-0.9	-	-	-
Thailand	(Bt)	25.2600	-	500 - 700	25.2790	25.2450	25.3588	-4.7	25.5625	-4.8	26.445	-4.7	-

† SDR rate per $ for Mar 21. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Mar 21: Base average 1990=100

WORLD INTEREST RATES

MONEY RATES

March 22	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Belgium	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	7.00	3.00	-
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	7.00	3.00	-
France	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	3.80	-	5.60
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	3.80	-	5.60
Germany	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	5.00	3.00	3.30
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	5.00	3.00	3.30
Ireland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	-	6.25
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	-	6.25
Italy	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	9.00	9.96
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	9.00	9.87
Netherlands	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	3.00	3.30
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	3.00	3.30
Switzerland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	5.00	1.50	-
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	5.00	1.50	-
US	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	5.00	-
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	5.00	-
Japan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	0.50	-
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	0.50	-
■ $ LIBOR FT London Interbank Fixing	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
week ago	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
US Dollar CDs	-	5.00	5.10	5.19	5.38	-	-	-
week ago	-	5.00	5.16	5.24	5.43	-	-	-
ECU Linked Ds	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
week ago	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
SDR Linked Ds	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
week ago	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-

$ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo, Barclays and National Westminster.
Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

Mar 22	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Danish Krone	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
D-Mark	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dutch Guilder	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
French Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Portuguese Esc.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Spanish Peseta	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sterling	[illegible]	[illegible]	6 - [illegible]	[illegible] - 6	[illegible] - 6	[illegible]
Swiss Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	2 - [illegible]
Can. Dollar	[illegible]	5 - [illegible]	5 - [illegible]	[illegible] - 5	[illegible]	[illegible]
US Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Italian Lira	10½ - 9½	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Yen	½ - [illegible]	1 - [illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Asian $Sing	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	94.60	94.59	-0.01	94.61	94.57	59,948	432,925
Sep	94.46	94.44	-0.01	94.46	94.43	80,567	326,190
Dec	94.25	94.23	-0.02	94.27	94.22	95,372	308,084

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	95.02	95.02	-0.02	95.04	95.02	579	2,227
Jun	95.08	95.08	-0.01	95.10	95.07	1,695	9,897
Sep	94.92	94.90	-0.01	94.92	94.90	112	3,079

All Open interest figs. are for previous day

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Mar 22		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	18.79	16.70	4.865	2.086	5155	5.447	21.17	503.0	408.9	21.83	3.936	2.149	4.493	3.298	352.0	2.630
Denmark	(DKr)	53.21	10	8.884	2.589	1.110	2743	2.898	11.26	267.7	217.6	11.62	2.095	1.143	2.391	1.755	187.3	1.399
France	(FFr)	59.90	11.26	10	2.914	1.250	3088	3.263	12.68	301.3	244.9	13.08	2.358	1.287	2.691	1.976	210.8	1.575
Germany	(DM)	20.56	3.863	3.432	1	0.429	1060	1.120	4.351	103.4	84.05	4.488	0.809	0.442	0.924	0.678	72.35	0.541
Ireland	(I£)	47.93	9.007	8.002	2.332	1	2471	2.611	10.15	241.1	196.0	10.46	1.887	1.030	2.153	1.581	168.7	1.261
Italy	(L)	1.940	0.365	0.324	0.094	0.040	100.	0.106	0.411	9.758	7.932	0.424	0.076	0.042	0.087	0.064	6.828	0.051
Netherlands	(Fl)	18.36	3.450	3.065	0.893	0.383	946.4	1	3.886	92.35	75.07	4.008	0.723	0.394	0.825	0.606	64.62	0.483
Norway	(NKr)	47.24	8.878	7.886	2.298	0.986	2435	2.573	10	237.6	193.2	10.31	1.860	1.015	2.123	1.558	166.3	1.243
Portugal	(Es)	19.88	3.736	3.319	0.967	0.415	1025	1.083	4.208	100.	81.29	4.340	0.783	0.427	0.893	0.656	69.97	0.523
Spain	(Pta)	24.46	4.596	4.083	1.190	0.510	1261	1.332	5.177	123.0	100.	5.339	0.963	0.525	1.099	0.807	86.07	0.643
Sweden	(SKr)	45.81	8.608	7.648	2.228	0.956	2361	2.495	9.698	230.4	187.3	10	1.803	0.984	2.058	1.511	161.2	1.205
Switzerland	(SFr)	25.40	4.774	4.241	1.236	0.530	1309	1.384	5.377	127.8	103.9	5.546	1	0.546	1.141	0.838	89.41	0.668
UK	(£)	46.54	8.746	7.770	2.264	0.971	2399	2.535	9.851	234.1	190.3	10.16	1.832	1	2.091	1.535	163.8	1.224
Canada	(C$)	22.26	4.183	3.716	1.083	0.464	1147	1.212	4.711	112.0	91.01	4.859	0.876	0.478	1	0.734	78.34	0.585
US	($)	30.32	5.698	5.062	1.475	0.633	1563	1.651	6.418	152.5	124.0	6.619	1.193	0.651	1.362	1	106.7	0.797
Japan	(Y)	28.41	5.339	4.744	1.382	0.593	1465	1.548	6.014	142.9	116.2	6.203	1.118	0.611	1.277	0.937	100.	0.747
Ecu		38.02	7.145	6.348	1.850	0.793	1960	2.071	8.048	191.3	155.5	8.301	1.497	0.817	1.709	1.254	133.8	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Sett price	Change	High	Low	Est.vol	Open int.
Jun	0.6791	0.6802	+0.0007	0.6814	0.6780	18,004	54,148
Sep	0.6837	0.6839	+0.0007	0.6845	0.6834	58	2,108
Dec	-	0.6876	+0.0007	-	-	18	197

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Sett price	Change	High	Low	Est.vol	Open int.
Jun	0.8425	0.8444	+0.0018	0.8458	0.8412	9,855	28,868
Sep	-	0.8519	+0.0019	0.8525	-	28	501
Dec	-	0.8594	+0.0019	0.8595	-	2	504

■ JAPANESE YEN FUTURES (IMM) Yen 12.5 per Yen 100

	Open	Sett price	Change	High	Low	Est.vol	Open int.
Jun	0.9486	0.9462	-0.0011	0.9483	0.9435	15,122	63,696
Sep	0.9578	0.9575	-0.0012	0.9590	0.9569	98	1,089
Dec	-	0.9686	-0.0013	-	-	101	1,021

■ STERLING FUTURES (IMM) £62,500 per £

	Open	Sett price	Change	High	Low	Est.vol	Open int.
Jun	1.5348	1.5334	-0.0022	1.5348	1.5306	8,977	36,759
Sep	1.5290	1.5314	-0.0022	1.5320	1.5290	9	37
Dec	-	1.5294	-0.0022	-	1.5270	3	32

■ Pound in New York

Mar 22	— Close —	— Prev. close —
£ spot	1.5365	1.5370
1 mth	1.5357	1.5362
3 mth	1.5341	1.5346
1 yr	1.5269	1.5276

FT GUIDE to WORLD CURRENCIES

The FT Guide to World Currencies table can be found on the Markets page in today's edition.

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	CALLS Apr	CALLS May	CALLS Jun	PUTS Apr	PUTS May	PUTS Jun
1.500	3.29	3.54	3.96	0.07	0.30	0.64
1.510	2.42	2.76	3.29	0.16	0.53	1.15
1.520	1.61	2.12	2.67	0.27	0.84	1.52
1.530	0.95	1.54	2.17	0.60	1.25	1.95
1.540	0.49	1.07	1.70	1.14	1.78	2.51
1.550	0.20	0.71	1.31	1.86	2.42	3.04

Previous day's vol., Calls 10,281 Puts 8,004 . Prev. day's open int., Calls 149,941 Puts 147,722

UK INTEREST RATES

LONDON MONEY RATES

Mar 22	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	[illegible] - 5	6 - [illegible]	[illegible]	[illegible] - 6	[illegible] - 6	[illegible]
Sterling CDs	-	-	6 - [illegible]	6 - [illegible]	6 - [illegible]	[illegible]
Treasury Bills	-	-	[illegible]	[illegible]	-	-
Bank Bills	-	-	[illegible]	[illegible]	[illegible]	-
Local authority deps.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible] - 6
Discount Market deps	[illegible]	[illegible]	-	-	-	-

UK clearing bank base lending rate 6 per cent from March 8, 1996

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	2½	5½	5	5	4½

Certs of Tax dep. under £100,000 is 2½pc. Deposits withdrawn for cash 1½pc.
Ave. tender rate of discount on Mar 15, 5.7869pc. ECGD fixed rate Stlg. Export Finance. Make up day Feb 29, 1996. Agreed rate for period Mar 26, 1996 to Apr 25, 1996, Schemes II & III 7.48pc. Reference rate for period Feb 1, 1996 to Feb 29, 1996, Schemes IV & V 6.238pc. Finance House Base Rate 6.5pc from March 1, 1996

BANK OF ENGLAND TREASURY BILL TENDER

	Mar 22	Mar 15
Bills on offer	£800m	£800m
Total of applications	£3637m	£3595m
Total allocated	£800m	£800m
Min. accepted bid	£98.560	£98.555
Allotment at min. level	97%	80%

	Mar 22	Mar 15
Top accepted rate	5.7738%	5.7959%
Ave. rate of discount	5.7758%	5.7869%
Average yield	5.8802%	5.8733%
Offer at next tender	£800m	£800m
Min. accept. bid 182 days	-	-

BANK RETURN

BANKING DEPARTMENT	Wednesday March 20,1996	Increase or decrease for week
Liabilities	£	£
Capital	14,553,000	
Public deposits	931,310,243	-258,321,919
Bankers deposits	1,779,068,289	-17,179,411
Reserve and other accounts	3,252,862,317	+104,487,871
	5,977,794,849	-166,013,459
Assets		
Government securities	1,632,630,775	+342,095,000
Advance and other accounts	1,785,893,351	+455,154,138
Premise, equipment and other secs	2,554,584,159	-958,701,369
Notes	4,313,506	-4,577,055
Coin	173,058	+15,846
	5,977,794,849	-166,013,459

ISSUE DEPARTMENT		
Liabilities		
Notes in circulation	19,595,686,494	+54,577,055
Notes in Banking Department	4,313,506	-4,577,055
	19,600,000,000	+50,000,000
Assets		
Other Government securities	14,661,499,821	+886,294,470
Other Securities	4,938,500,179	-836,294,470
	19,600,000,000	+50,000,000

BASE LENDING RATES

	%		%		%
Adam & Company	6.00	Duncan Lawrie	6.00	Royal Bk of Scotland	6.00
Allied Trust Bank	6.00	Exeter Bank Limited	7.25	•Singer & Friedlander	6.00
AIB Bank	6.00	Financial & Gen Bank	7.00	•Smith & Williamson Secs	6.00
•Henry Ansbacher	6.00	•Robert Fleming & Co	6.00	TSB	6.00
Bank of Baroda	6.00	Girobank	6.00	United Bank of Kuwait	6.00
Banco Bilbao Vizcaya	6.00	•Guinness Mahon	6.00	Unity Trust Bank Plc	6.00
Bank of Cyprus	6.00	Habib Bank AG Zurich	6.00	Western Trust	6.00
Bank of Ireland	6.00	•Hambros Bank	6.00	Whiteaway Laidlaw	6.00
Bank of India	6.00	Heritable & Gen Inv Bk	6.00	Yorkshire Bank	6.00
Bank of Scotland	6.00	•Hill Samuel	6.00		
Barclays Bank	6.00	C. Hoare & Co	6.00		
Brit Bk of Mid East	6.00	Hongkong & Shanghai	6.00		
•Brown Shipley & Co Ltd	6.00	Julian Hodge Bank	6.00		
Citibank NA	6.00	•Leopold Joseph & Sons	6.00		
Clydesdale Bank	6.00	Lloyds Bank	6.00		
The Co-operative Bank	6.00	Meghraj Bank Ltd	6.00		
Coutts & Co	6.00	Midland Bank	6.00		
Credit Lyonnais	6.00	* Mount Credit Corp	6.25		
Cyprus Popular Bank	6.00	NatWestminster	6.00		
		•Rea Brothers	6.00		

• Members of London Investment Banking Association
* In administration

FT GOLD MINES INDEX

	Mar 22	% chg since 29/12/95	Mkt Cap $bn	% of Gold Mines	Gross div yield %	P/E ratio	52 week High	52 week Low
Gold Mines Index (33)	2294.66	+18.4	97.69	100.00	1.45	-	2820.73	1722.69
■ Regional Indices								
Africa (15)	3133.61	+25.2	17.04	29.56	2.70	33.08	3553.86	2272.74
Australasia (6)	2909.25	+10.1	5.74	9.97	2.43	28.57	2927.34	1986.82
North America (12)	1994.61	+18.4	34.85	60.47	0.68	63.24	2186.39	1488.94

Copyright, The Financial Times Limited 1996. "FT Gold Mines Index" is a trademark of The Financial Times Limited. Figures in brackets show number of companies. Basis US Dollars. Base Values: 1000.00 31/12/92.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1996 High	1996 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
-	F.P.	81.7	527	496	BZW Eq (Brmdy	517	+3	-	-	-	-
-	F.P.	0.07	5½	3	Clubhaus Wrts	3		-	-	-	-
12	F.P.	53.2	16½	14	†Freepages	14½		¥-	-	-	-
154	F.P.	58.9	186	183	Fulmar	188	+2	Ln4.3	2.7	2.9	16.4
-	F.P.	31.3	143	108	†IOC Intl	128	-2	-	-	-	-
100	F.P.	30.0	100	98	Intl Biotech C	100		-	-	-	-
100	P.P.	22.6	53	52	Life Offices	52		-	-	-	-
-	F.P.	67.3	24½	20	M & G Equity Cap	22½		-	-	-	-
-	F.P.	5.17	92	88	M & G Equity Dw	90		-	-	-	-
-	F.P.	66.4	45	42	M & G Equity Inc	44	+½	-	-	-	-
145	F.P.	111.9	191	145	Macdonald Hotels	191	+1	RN4.0	2.3	2.6	20.6
125	F.P.	15.1	130	125	†Manne & Merc	125		-	-	-	-
500	F.P.	175.7	509	99	Perp Inc & Gwth	509		-	-	-	-
100	F.P.	16.5	105	103	†Prmry Hlth Props	103		-	-	-	-
-	F.P.	24.2	98	97	Saracen Value C	97		-	-	-	-
-	F.P	204.4	266	241	Schroder UK G Uts	255½		-	-	-	-
3	F.P.	4.96	3¾	3½	Silver Shield	3¾		¥-	-	-	15.8
120	F.P.	37.8	141	123	Stadium Group	137	+1	Ln3.8	3.1	3.5	11.5
160	F.P.	108.5	186	175	Streamline	175		W7.7	1.7	5.5	13.2
135	F.P.	45.6	181	153	†Triad Group	181	+8	RN2.35	3.0	1.6	24.0
185	F.P.	116.4	253	218	Visual Action	253	+11	RN4.7	2.9	2.3	18.5
-	F.P.	0.31	6	5	Wstm Select Wt	5		-	-	-	-

† Alternative Investment Market. For a full explanation of all other symbols please refer to The London Share Service notes.

UK GILTS PRICES

Notes	Price £	Wk % +/-	Amnt £m	Interest due	Last xd	City line
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Shorts" (Lives up to Five Years) — Five to Fifteen Years — Over Fifteen Years — Undated — Index-Linked — Other Fixed Interest

Treas 15¼pc 1996‡‡ 101⅛ -.1 1,150 Nv3 My3 27.9 1309
Exch 13¼pc 1996‡‡ 101⅛ -.1 800 Nv15 My15 9.10 1266
Treas 2pc 1996 216⅝ — 1,200 Mr16 Se16 7.3 1313
Conversion 10pc 1996 102⅝ — 3,409 My15 Nv15 8.10 1240
Treas 13¼pc 1997‡‡ 105⅝ — 1,280 Jy22 Ja22 18.12 1302
Treas 8½pc 2005‡‡ 102⅝ -.2 5,000 Ja7 De7 31.10 4946
Treas 7¾pc 2006‡‡ 95⅝ -.2 5,000 Ja7 De7 31.10 1148
Treas 7¾pc 2006‡‡ 95⅝ -.1 3,900 Mr8 Se8 28.2 2300
Treas 8pc 2002-6‡‡ 98⅝ 0.2 2,000 Ap5 Oc5 1.9 1394
Treas 11¾pc 2003-7 119⅝ -.3 3,150 Jy22 Ja22 18.12 1280
Index-Linked: 4⅝pc '98‡‡ (135.6) 111⅝ 0.2 800 Ap27 Oc27 20.9 1753
2½pc '01 (78.3) 176⅝ 0.1 1,700 My24 Se24 14.3 1316
2½pc '03 (78.8) 172⅝ 0.1 1,780 My20 Nv20 16.10 1317
4⅝pc '04‡‡ (135.6) 113⅝ — 1,080 Ap21 Oc21 14.9 1255
2pc '06 (69.5) 179⅝ -.1 1,850 Jn19 Jy19 13.12 1314

[illegible]

■ Figures in parentheses show RPI base for indexing. 8 months prior to issue, and have been adjusted to reflect rebasing of RPI to 100 in January 1987. Conversion factor 3.945. RPI for July 1995: 149.1 and for February 1996: 150.9.

● "Tap" stock. ‡‡ Tax-free to non-residents on application. E Auction basis. xd Ex dividend. Closing mid-prices are shown in pounds per £100 nominal of stock. Weekly percentage changes are calculated on a Friday to Friday basis.

STOCK INDICES

	Mar 22	Mar 21	Mar 20	Mar 19	Mar 18	1995/96 High	1995/96 Low	Since comp. High	Since comp. Low
FT-SE 100	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FT-SE Mid 250	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FT-SE Mid 250 ex IT's	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FT-SE-A 350	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FT-SE SmallCap	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FT-SE SmallCap ex IT's	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FT-SE-A All-Share	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FT-SE-A Fledgling	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FT-SE Eurotrack 100	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FT-SE Eurotrack 200	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FT Ordinary	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FT Govt Securities	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FT Fixed Interest	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FT Gold Mines	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

CONTRACTS & TENDERS

Republic of Poland
Minister of Privatisation

Invitation to Negotiate

The Minister of Privatisation, acting on behalf of the State Treasury, pursuant to Article 23 of the Act on Privatisation of State-Owned Enterprises of July 13, 1990 (Journal of Laws No. 51, item 298, with subsequent amendments) hereby issues an Invitation to Negotiate to parties interested in the purchase of not less than 10% of the share capital of

Łódzka Wytwórnia Papierosów Spółka Akcyjna
with its registered office in Łódź
(the "Company")

The Minister of Privatisation will reserve a portion of the shares of the Company for eligible employees, and a further portion as a general reserve against reprivatisation, all as required by the applicable law.

All expressions of interest for the acquisition of shares of the Company should be made in writing by 4 p.m. on April 12, 1996 addressed to:

Morgan Grenfell & Co. Limited
23 Great Winchester Street
London EC2P 2AX, U.K.
For the attention of Matthew Hindhaugh
Tel: +44 171 588 4545 Fax: +44 171 826 7900

or

Morgan Grenfell & Co. Limited
Flat 5, 3rd Floor, Aleje Jerozolimskie 51
00-697 Warsaw, Poland
For the attention of Piotr Konwicki
Tel: +48 22 625 5526 Fax: +48 22 298 540

Expressions of interest should contain:
(i) a description of the party's commercial activities in particular any existing cigarette manufacturing, distribution and/or leaf processing operations; and
(ii) recent information on the party's financial state of affairs.

Following receipt of a written expression of interest and subject to the execution of a confidentiality agreement, an information memorandum will be issued.

The Minister of Privatisation reserves the right to:
(i) extend the deadline for receipt of expressions of interest,
(ii) reject any expression of interest without stating the reasons therefore; and
(iii) cancel this invitation.

The Minister of Privatisation hereby cancels the invitation to negotiate to parties interested in the purchase of not less than 10% of the shares of the Company, published in Journal "Rzeczpospolita" and "Financial Times" on July 14, 1995.

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices: dial 0891 430010 and key in a 5 digit code listed below. Calls are charged at 39p/minute cheap rate and 49p/minute at all other times. International access available by subscription only. For more details call the FT Cityline Help Desk on (+44 171) 873 4378.

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

Fidelity Currency Funds Ltd

BERMUDA (REGULATED)(**)

GUERNSEY (SIB RECOGNISED)

Royal Bk of Canada O/S Fd Mgrs Ltd - Contd.

GUERNSEY (REGULATED)(**)

IRELAND (SIB RECOGNISED)

Guinness Flight Select Funds Plc

Hambros Fund Managers (Ireland) Ltd

Henderson Crosthwaite Investment Co

IRELAND (REGULATED)(**)

Chemical Ireland Fund Administrators Ltd

ISLE OF MAN (SIB RECOGNISED)

Ashburton Global Funds Ltd (1200)

Bank of Ireland Asset Mngmt (IOM) Ltd

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

JERSEY (REGULATED)(**)

John Govett Management - Contd.

INVESCO International Limited

LUXEMBOURG (SIB RECOGNISED)

Eagle Star – Global Assets Fund (a)

Nikko Capital Management

Nomura Global Fund (u)

PRICOA Worldwide Inv Portfolio Sicav (a)

LUXEMBOURG (REGULATED)(**)

OFFSHORE INSURANCES

هكذا من الأصل

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices: dial 0891 430010 and key in a 5 digit code listed below. Calls are charged at 39p/minute cheap rate and 49p/minute at all other times. International access available by subscription only. For more details call the FT Cityline Help Desk on (+44 171) 873 4378.

	Selling Price	Buying Price	Yield Gross	City-Line
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

OTHER OFFSHORE FUNDS

OFFSHORE INSURANCES

MANAGED FUNDS NOTES

[illegible]

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

[illegible]

BANKS, MERCHANT

[illegible]

BANKS, RETAIL

[illegible]

BREWERIES, PUBS & REST

[illegible]

BUILDING & CONSTRUCTION

[illegible]

BUILDING MATS. & MERCHANTS

[illegible]

CHEMICALS

[illegible]

DISTRIBUTORS

[illegible]

DIVERSIFIED INDUSTRIALS

[illegible]

ELECTRICITY

[illegible]

ELECTRONIC & ELECTRICAL EQPT

[illegible]

ELECTRONIC & ELECTRICAL EQPT - Cont.

[illegible]

ENGINEERING

[illegible]

ENGINEERING - Cont.

[illegible]

ENGINEERING, VEHICLES

[illegible]

EXTRACTIVE INDUSTRIES

[illegible]

EXTRACTIVE INDUSTRIES - Cont.

[illegible]

EXTRACTIVE INDUSTRIES - Cont.

[illegible]

FOOD PRODUCERS

[illegible]

GAS DISTRIBUTION

[illegible]

HEALTH CARE

[illegible]

HEALTH CARE - Cont.

[illegible]

HOUSEHOLD GOODS

[illegible]

INSURANCE

[illegible]

INVESTMENT TRUSTS

[illegible]

INVESTMENT TRUSTS - Cont.

[illegible]

INV TRUSTS SPLIT CAPITAL

[illegible]

هكذا من الأصل

هكذا من الأصل

LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Cont.

[illegible]

OTHER INVESTMENT TRUSTS

[illegible]

INVESTMENT COMPANIES

[illegible]

LEISURE & HOTELS

[illegible]

LEISURE & HOTELS - Cont.

[illegible]

LIFE ASSURANCE

[illegible]

MEDIA

[illegible]

OIL EXPLORATION & PRODUCTION

[illegible]

OIL, INTEGRATED

[illegible]

OTHER FINANCIAL

[illegible]

OTHER FINANCIAL - Cont.

[illegible]

PAPER, PACKAGING & PRINTING

[illegible]

PHARMACEUTICALS

[illegible]

PROPERTY

[illegible]

PROPERTY - Cont.

[illegible]

RETAILERS, FOOD

[illegible]

RETAILERS, GENERAL

[illegible]

RETAILERS, GENERAL - Cont.

[illegible]

SUPPORT SERVICES

[illegible]

SUPPORT SERVICES - Cont.

[illegible]

TELECOMMUNICATIONS

[illegible]

TEXTILES & APPAREL

[illegible]

TOBACCO

[illegible]

TRANSPORT

[illegible]

WATER

[illegible]

AIM

[illegible]

AIM - Cont.

[illegible]

AMERICANS

[illegible]

CANADIANS

[illegible]

SOUTH AFRICANS

	Notes	Price	W'k% ch'nge	Div net	Div cov.	Dividends paid	Last xd	City line
Anglo Am Ind		[illegible]	-2.6	[illegible]	♦	May Oct	7/95	–
Barlow		[illegible]	–	[illegible]	♦	Jan Jul	11.12	–
Energy Africa		[illegible]	-2.6					–
Gold Flds Prop R		[illegible]	–	[illegible]	2.1	Mar Sep	28.2	–
MK Props		90	5.9	[illegible]	–	Mar Sep	1.5	–
SASOL		[illegible]	–	[illegible]	–	Oct	[illegible]	–
SA Brews		[illegible]	–	[illegible]	2.1	Jan Dec	27.11	–
Standard Bank	□	[illegible]	1.5	[illegible]	3.1	Sep Mar	–	–
Tiger Oats		[illegible]	-1.1	[illegible]	♦	Jan Aug	11.12	–
Tongaat-Hulett	†	[illegible]	–	[illegible]	2.7	Jan Jul	4.12	–

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service delivered by FT Extel, a member of the Financial Times Group.

Company classifications are based on those used for the FT-SE Actuaries Share Indices.

Closing mid-prices are shown. Prices and net dividends are in pence unless otherwise indicated.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Dividend covers are based on "maximum" distribution; unless "v" is shown in the Notes field, indicating that the cover is calculated on a "net" basis. Market Capitalisations are published on Tuesdays-Saturdays except for Investment Trusts and British Funds.

- □ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ) and non-UK stocks through the SEAQ International system.
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ♦ Figures or report awaited
- ♥ Rule 2.1(a)(iv) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- ♠ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Rule 4.2(a) Irish incorporated non-listed companies.
- ¶ Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue; cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress
- ♦ Forecast dividend; cover based on earnings updated by latest interim statement.
- ♦ Unregulated collective investment scheme.

a Annualised dividend. b Figures based on prospectus or other official estimates. c Cents. e Assumed dividend. h Assumed dividend after scrip issue. m Interim higher than previous total. n Rights issue pending. q Earnings based on preliminary figures. s Dividend excludes a special payment. t Indicated dividend: cover relates to previous dividend. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. v P/e ratio & net cover calculated under new ACT guidelines. 2 Dividend includes a special payment: Cover does not apply to special payment. F Dividend based on prospectus or other official estimates for 1994-95. G Assumed dividend after pending scrip and/ or rights issue. H Dividend based on prospectus or other official estimates for 1995. K Dividend based on prospectus or other official estimates for 1996. L Estimated annualised dividend, cover based on latest annual earnings. M Dividend based on prospectus or other official estimates for 1995-96. Q Gross. R Forecast annualised dividend, cover based on prospectus or other official estimates. W Pro forma figures. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1350 a year for each security shown, subject to the Editor's discretion

FT Share Service

The following changes have been made to the FT Share Information Service: Additions: Capital & Western Ests (AIM). Deletions: Fortis AG (Inscs) and OIS Intl Inspect (Sup Servs).

♣ FT Free Annual Reports Service

You can obtain the current annual/interim report of any company annotated with ♣ . Please quote the code FT3439. Ring 0181 770 0770 (open 24 hours including weekends) or Fax 0181 770 3822. Reports will be sent the next working day, subject to availability.
Both Annual Reports and FT Company Focus are available from the above number.

FT Company Focus

Comprehensive 10-14 page report available on this company, containing key FT stories from the last year, latest survey of City profit forecasts and investment recommendations, 5 year financial and share price performance review, balance sheet and profit and loss data, plus recent Stock Exchange announcements for £6.45.
To order, call 0121 200 4678.
Reports published by ShareFinder Ltd.

FT Cityline

For up-to-the-second share prices call FT Cityline on 0336 43 or 0891 43 followed by the four-digit code listed after the share price. Calls charged at 39p per minute cheap rate and 49p per minute at all other times.
An international service is available for callers outside the UK, annual subscription £250 stg.
Call 0171 873 4378 for more information on FT Cityline.
For readers phoning from outside UK, please dial +44 in place of the first 0.
The share prices printed on these pages are also available on the internet at www.FT.com.

4 pm close March 22

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

1995/96 High	Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
22⅛	12⅞	AAR	0.48	2.4	21	80	20	19¾	19¾	-¼
46¾	35	AMP	1.00	2.3	22	2411	43⅜	42¾	43¼	+⅝
93⅜	53⅞	AMR			36	6151	91	87¾	90¼	+½
50½	36⅞	ASA	2.00	4.4	30	1387	46	44¾	45⅝	+¾
44¾	30¾	Abbott	0.96	2.3	19	6904	41¼	40¾	41	-¼
18⅞	12	AcMex Pr	0.40	2.9	7	745	14⅛	13¾	13¾	-½
32	21	ABM Ind	0.70	2.2	16	20	32	31¾	31⅞	+⅛
17½	13⅛	Acptncein			53	86	15	14⅞	14⅞	-⅛
50⅞	21⅞	ACE Ltd	0.56	1.2	10	787	44⅞	43⅝	44⅞	+1⅛
9⅞	8⅛	ACM Gvt In	0.90	9.4	8	184	9⅝	9½	9⅝	+⅛
7⅞	6½	ACM GvOpp	0.66	8.9		9	7⅜	7¼	7⅜	
7½	5¾	ACM Gvt Sp	[illegible]	[illegible]		535	6⅞	6¾	6⅞	+⅛
9⅛	7¾	ACM Gvt Se	0.80	10.3		710	8¾	8⅝	8¾	+⅛
9½	7⅞	ACM Man	0.90	9.7		285	9½	9¼	9¼	-⅛
31¼	10¼	AcmeCly	0.52	1.7	7	587	30⅞	30⅝	30⅞	+⅛
38¾	6⅛	Acme Elect			56	53	6¾	6½	6¾	+⅛
34½	23¾	Acordia	0.72	2.3	18	89	31⅛	30⅞	31	-½
18⅜	10⅛	Acuson			46	248	14⅞	14⅝	14¾	+⅛
19⅝	15⅝	Adams Expr	0.36	1.9	0	91	19⅛	19	19	
38⅞	16⅞	AdvMic			5	5186	17⅛	16⅞	16⅞	-⅛
10¼	5	Advest Grp	0.16	1.7	9	101	9¾	9½	9⅝	
27½	10½	Advo Inc	0.10	0.9	11	504	10⅞	10½	10⅝	-⅛
48¾	24.80	Aegon	1.29	2.9	16	26	44⅛	43⅞	44⅛	+⅛
5⅞	3⅞	Aerfix			8	278	4⅛	4⅛	4⅛	+⅛
78¾	46¾	Aetna L	2.76	3.6	36	1214	76⅛	75⅜	76⅛	+¼
33.17	21.37	Aflac	0.35	1.1	13	1183	32⅝	32⅛	32⅛	-⅛
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

- B -

- C -

- D -

- E -

- F -

- G -

- H -

- I -

- J -

- K -

- L -

- M -

- N -

- O -

- P - Q -

- R -

- S -

Continued on next page

…AY MARCH 25 1996

…Vritedown …xpected at …Moorfield

…Simon London, …operty Correspondent

…oorfield Estates, the …roperty company which in …ecember replaced its manage…ent with two City analysts, …expected to write down the …alue of its property portfolio …nd halve its dividend when …995 results are announced …oday.

The moves reflect the desire …f Mr Marc Gilbard and Mr …raham Stanley, former Gold…man Sachs property analysts, …o put the company on a sus…tainable footing.

The write-down could lead …to a reduction in net assets per …share of up to 20 per cent. Bal…ance sheet gearing is expected …to increase from 124 per cent …to almost 150 per cent, …although Moorfield is unlikely …to breach its main banking …covenants.

Mr Gilbard and Mr Stanley, …who took over at the request …of institutional shareholders …in the poorly-performing com…pany, are also preparing to …appoint new stockbrokers and …financial advisers.

In addition, the 15 per cent …stake in Moorfield held by …British Land, the property …company chaired by Mr John …Ritblat, is likely to be placed …with institutional investors.

…Microbics seeks market listing

By Michael Roch

…Microbics, a California-based …water purity testing company, …is to float on the London stock …exchange within the next 12 …months.

The group, which is relocat…ing to southern England, has …just raised $15m (£9.6m) from …a private placing with UK fund …managers.

Mr Tony Martin, chief execu…tive officer and chairman, was …formerly chief executive of Cel…sis, the environmental and …… diagnostics group.

…that Microbics consid…ered floating on the Aim, but …decided that its growth pros…pects would necessitate a list…ing on the main market. It has …been a private company for …more than 13 years.

4 pm close March 22

NYSE COMPOSITE PRICES

Continued from previous page

- V -

- W -

- T -

- U -

- X - Y - Z -

AMEX COMPOSITE PRICES

4 pm close March 22

NASDAQ NATIONAL MARKET

4 pm close March 22

- A -

- B -

- C -

- D -

- E -

- F -

- G -

- H -

- I -

- J -

- K -

- L -

- M -

- N -

- O -

- P - Q -

- R -

- S -

- T -

- U -

- V -

- W -

- X - Y - Z -

FT GUIDE TO THE WEEK

MONDAY 25

Nuclear-free South Pacific

Britain, France and the US sign the Treaty of Rarotonga, making the South Pacific a nuclear-free zone. The three western powers will sign three protocols of the 1985 treaty banning nuclear weapons and nuclear tests in the region, where France completed a bitterly disputed series of nuclear weapons tests in January. France says future tests will be computer-simulated.

S Africa minister in Beijing

In the first official South African visit to the People's Republic of China, Alfred Nzo, South Africa's foreign minister, visits Beijing for talks with officials including his counterpart, Qian Qichen. South Africa does not have formal ties with China, although it does with Taiwan. Its representatives in Beijing work from the unofficial South African Centre for Chinese Studies. Pretoria's possible switching of recognition to Beijing will be discussed but no early move is expected.

EU foreign ministers

Aid to Bosnia, multilateral trade negotiations on telecoms liberalisation and prospects for opening a new trade agreement with South Africa will be discussed by European Union foreign ministers in Brussels. Ministers believe the EU is close to picking up pledges of $1bn (£650m) from the international community for Bosnia reconstruction.

Man of many parts

Hollywood's Academy Awards will result by most accounts in Mel Gibson's *Braveheart* picking up at least one golden doorstop. Mr Gibson, the film's director, also starred as the (in the end) man of many parts, William Wallace. With 10 Oscar nominations, in the best picture category Braveheart is up against *Apollo 13*, the all-American homecoming movie shot inside a microwave oven, *Sense and Sensibility* and Italy's art-house contender, *Il Postino*.

South Korea assembly

The election campaign for South Korea's National Assembly officially begins, with the ruling New Korea party facing an uphill struggle to keep its parliamentary majority. A severe defeat for the government at the hands of the three opposition parties could render President Kim Young-sam a lame duck for his remaining two years in office.

Queen visits Poland

Queen Elizabeth II starts a three-day state visit in Poland, the first by a British monarch. She will be hosted by Aleksander Kwasniewski, a former communist who became president last November, and will meet Lech Walesa, the former president, privately. Mr Walesa declined an invitation to the Queen's banquet at the Bristol Hotel in Warsaw to avoid shaking hands with Mr Kwasniewski.

On guard: Beijing remains relatively restrained following Taiwan's first democratic election, but its position on reunification with the mainland has not changed

Mad cow ban

The European Commission's veterinary standing committee decides whether to confirm the EU import ban on British beef.

Family law bill debate

Britain's House of Commons debates the controversial family law bill. Ministers are expected to announce the acceptance in principle that pensions can be split at the time of divorce.

FT Surveys

Pharmaceuticals; Latin American Finance.

Public holidays

Colombia, Cyprus, Greece.

TUESDAY 26

Israeli election lists close

Members of Likud, the Israeli right-wing opposition party, elect a list of candidates, one day after the ruling Labor party finalises its primary list for the May 29 elections. The Likud primary comes one week after its leader, Benyamin Netanyahu, forged a coalition with two smaller parties. Polls show the Likud-led bloc virtually tied with Labor for seats in the 120-member Knesset. The elections are considered a referendum on the peace process, with Mr Netanyahu promising a more security-oriented regime.

Saleroom

Sotheby's and Christie's have rearranged their auction calendar to organise sales alongside the first specialist fair in New York to concentrate on the antiques of the far East. The fair opens at the Armories in Manhattan at the weekend, with 40 exhibitors. On Tuesday, Sotheby's is offering Chinese works of art including a rare Ming wucai box and cover – used to keep crickets. It is expected to make up to $450,000 (£294,000). On Wednesday, among the Korean works of art, is a 10-panel 19th-century screen commemorating the 60th birthday of Queen Mother Cho in 1887. The top estimate is $1.2m.

FT Surveys

Portugal: Banking Finance and Industry; Slovenia.

Public holidays

Bangladesh.

WEDNESDAY 27

OAS against corruption

Members of the Organisation of American States tackle one of the most costly obstacles faced by businesses in their hemisphere. The three-day Inter-American Convention Against Corruption, sponsored by the OAS and the Venezuelan government, is being attended by 34 delegations of OAS member states – mostly ministers of justice – and 37 observers. Combating corruption has been identified as a main priority for regional free trade and higher foreign investment.

Verdict in Rabin killing

A court in Tel Aviv issues a verdict in the case of Yigal Amir, the 25-year-old Israeli accused of murdering Yitzhak Rabin, the former prime minister, last November. His lawyers have used defences which have ranged from claiming that Amir did not mean to kill the prime minister to implying that there was a set-up.

Five-mile-high loophole

The UK parliament debates a bill that would close a loophole allowing passengers to get away with some violent and otherwise illegal acts on flights into the country. Such passengers can only be arrested if flying on British airlines in British-registered aircraft. The private member's bill introduced by Lord Brabazon of Tara would extend UK jurisdiction over crime to foreign-registered aircraft. The loophole allows immunity to mid-air computer hackers and money launderers, as well as to somebody who commits sexual assault.

Orange shares trade

Shares in Orange, the first UK mobile telephone company to be floated, start trading. The company, which is owned by Hutchison Whampoa, the Hong Kong conglomerate, and British Aerospace, is issuing 326m shares. The issue will give Orange a value of up to £2.3bn.

Football

As part of their warm-up for the European football championship in June, England play Bulgaria at London's Wembley stadium. Being hosts of the tournament's final stages, England qualifies automatically.

Horse racing

American champion Cigar is the hot favourite for the inaugural Dubai World Cup, at Dubai's Nad Al Sheba race track. With $4m (£2.6m) in total prize money, it is the world's richest horse race.

Squash

British Open, Cardiff (to Apr 7).

FT Surveys

Poland; Insurance.

Public holidays

Nepal.

THURSDAY 28

Hungary to join OECD

Hungary is to be invited to join the Organisation for Economic Co-operation and Development, the Paris-based club which groups the world's most industrialised nations. Hungary – which would become the second former Eastern bloc country to join after the Czech Republic's accession last year – sees membership as a milestone in its ambition to join the European Union.

FT Surveys

Japanese Financial Markets; Investing in South Africa.

Public holidays

Nepal.

FRIDAY 29

IGC conference launched

European Union leaders meet in Turin for the official launch of constitutional talks on the EU. The inter-governmental conference, expected to last at least 15 months, will discuss how best to organise a Europe of nation states committed to expansion eastwards and southwards. Areas of negotiation include strengthening the EU's external and internal security, streamlining decision-making through more majority voting and adjusting voting weights to favour large member states. The UK government is taking a hardline on deeper political integration, and risks becoming isolated.

Portugal opposition regroups

Portugal's opposition Social Democrats (PSD) – defeated by the Socialists in the general election last October after 14 years in government – begin a three-day congress to elect a new leader. The centre-right party has lost direction since Aníbal Cavaco Silva, the prime minister between 1985 and 1995, abandoned the leadership a year ago and became a losing presidential candidate last January. Most of the party's senior figures are shying away from election, fearing the next PSD leader will be transitional. Marcelo Rebelo de Sousa, a law professor, is the man most likely to take on the unenvied role.

Survey of grassroots Tories

The Conservative Central Council opens in Harrogate, North Yorkshire. The council – which is a half-year meeting of party activists – will hear the results of a survey into the attitude of grassroots Tories towards the party's next manifesto.

FT Survey

Lanarkshire.

Public holidays

Taiwan.

SATURDAY 30

Olympic flame ignited

An actress lights the Olympic torch outside the temple of Hera at ancient Olympia in Greece. The ceremony, in which the sun's rays are reflected in a concave mirror, is to kindle the flame for the 1996 Summer Olympic Games in Atlanta. The torch will be carried by about 800 runners around Greece before being handed to US officials in Athens' Panathenaic stadium – where the first modern Olympics were staged 100 years ago.

Horse racing

No fewer than 10 horses were slaughtered at England's recent three-day Cheltenham jumps-racing "festival", so animal-cruelty protesters may be out in force at the 4.5-mile Grand National steeplechase at Aintree racecourse, near Liverpool.

Rugby union

Hong Kong sevens tournament (to Mar 31).

SUNDAY 31

Balkans security meeting

William Perry, the US defence secretary, attends a US-sponsored meeting of Balkan defence ministers in Tirana. Ministers from Albania, Macedonia, Bulgaria and Turkey will discuss regional security and defence. Greece, which in January came close to war with Turkey over an islet in the Aegean Sea, will not participate.

Lease ruling in Okinawa

A court in Japan rules on whether Masahide Ota, the governor of the Okinawa island prefecture, is obliged to force local landowners to renew leases to US military forces. The leases expire at the end of March. The court is expected to rule in favour of the Tokyo government, which brought the case against Mr Ota.

Motor racing

Brazilian grand prix, Interlagos.

Compiled by Simon Strong.
Fax: (+44) (0)171 873 3194.

ECONOMIC DIARY

Other economic news

Monday: German cost of living data published this week will provide the latest indication of inflationary pressures in the country. Italian industrial production is thought to have risen in January.

Tuesday: The UK is expected to have recorded a current account deficit in the fourth quarter of last year. UK national accounts data are expected to confirm that Britain's GDP grew by 0.3 per cent between the third and fourth quarters of last year.

Wednesday: US durable goods orders are expected to have risen slightly last month. Canadian raw materials prices are forecast to have risen.

Thursday: The Bundesbank council meets to discuss German monetary policy. An INSEE business survey will give the latest snapshot of the health of French industry.

Friday: France's unemployment rate is expected to have remained unchanged last month. French manufacturing output is forecast to have recovered in January. Economists think the UK's trade gap with countries outside the EU improved last month but that the trade gap with the whole of the world deteriorated in January.

Statistics to be released this week

Day Released	Country	Economic Statistic	Median Forecast	Previous Actual
Mon	US	Feb existing home sales	-	3.71m
Mar 25	Japan	Jan ov'all pers consump'n expend**	1.8%	-1.0%
	Japan	Ditto workers**	-	0.7%
	Japan	Jan income (workers)	-	-0.7%
Tues	US	Mar consumer confidence	99.0	97.0
Mar 26	US	Feb export price indx	-	0.5%
	US	Feb import price indx	-	0.3%
	US	Johnson Redbook w/e Mar 23	-	-0.2%
	Japan	Jan coincident indx	100.0%	70.0%
	Japan	Jan leading diffusion indx	80.0%	100.0%
	France	Feb household consumption*†	0.2%	5.1%
	UK	4th qtr gross domestic prod (fnl)***	0.5%	0.5%
	UK	4th qtr gross domestic prod (fnl)**	1.9%	1.9%
	UK	4th qtr current a/c	-£1.0bn	-£1.3bn
Wed	US	Feb durable orders	0.4%	0.2%
Mar 27	US	Feb durable shipments	-	-1.8%
	Canada	Feb raw materials price indx	-	-1.3%
Thur	US	Initial claims w/e Mar 23	415,000	384,000
Mar 28	US	State benefits w/e Mar 16	-	2.59m
	US	1996 Investment Plan survey	-	9.4%
	US	M2 w/e Mar 18	$5.0bn	$0.6bn
Fri	US	Jan trade: goods & services	-$7.4bn	-$6.8bn
Mar 29	US	Ditto export (balance of payments)	$68.3bn	$68.3bn
	US	Ditto import (balance of payments)	$75.7bn	$75.1bn
	US	Feb new home sales	690,000	693,000

Day Released	Country	Economic Statistic	Median Forecast	Previous Actual
Fri	US	Mar Chicago Ass purchasing mngrs	-	44.9%
Mar 29	US	Mar Michigan sentimental final	-	95.7
(cont)	US	Mar agriculture prices	-	-1.9%
	Japan	Feb job offers/seekers ratio	0.67	0.67
	Japan	Feb construction orders**	-	17.7%
	Japan	Feb housing starts**	4.0%	7.2%
	Japan	Feb construction starts**	-	10.9%
	Japan	Feb industrial production†	1.4%	0.0%
	Japan	Feb shipments	-	-0.9%
	France	Jan trade balance†	FFr7.2bn	FFr7.0bn
	France	Jan industrial production*†	0.6%	-0.7%
	UK	Feb trade ex-EC	-£760m	-£890m
	UK	Jan visible trade, global	-£1,000m	-£557m
	UK	Feb consumer credit	£650m	£547m
During the week...				
	Japan	Feb department store sales**	-	5.4%
	Germany	Feb final cost of living, West*	-	0.5% (prel)
	Germany	Feb final cost of living, West**	-	1.4% (prel)
	Germany	Feb final COL, pan-Germany*	-	0.1%
	Germany	Feb final COL, pan-Germany**	-	1.5%
	Germany	Feb import prices*	0.2%	0.4%
	Germany	Feb import prices**	-0.7%	-1.0%
	Germany	Mar prelim cost of living, West*	0.1%	0.5%
	Germany	Mar prelim cost of living, West**	1.4%	1.4%

*month on month, **year on year, ***qtr on qtr, †seas/adj *Statistics, courtesy MMS International.*

MONDAY PRIZE CROSSWORD

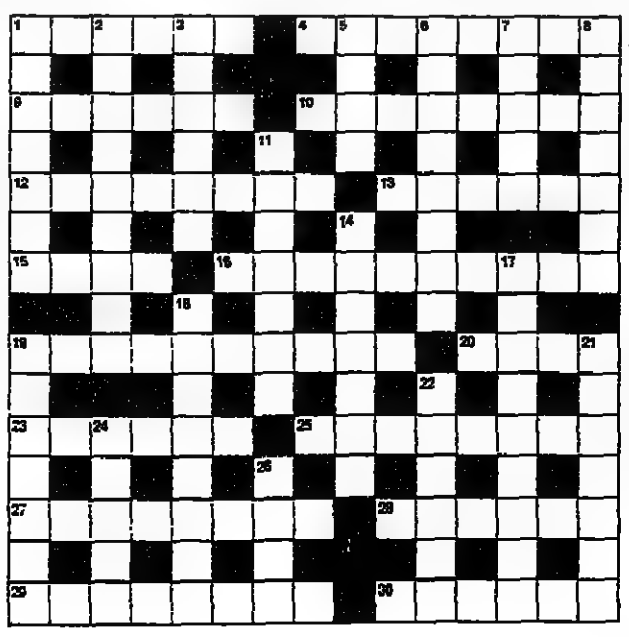
No.9,027 Set by DANTE

ACROSS

1 Sort of punch-ups degenerating into a brawl (6)
4 Corresponding but never meeting (8)
9 Club porter (6)
10 Stop one on a horse (8)
12 Grating that goes on top, of course (8)
13 Annoy a learned cleric, interrupting with a problem (6)
15 One of the first people named in Somerset House (4)
16 A rousing outdoor performance (4,6)
19 Reckless, having an iridescent cocktail (10)
20 A mother may be the making of a man (4)
23 Motoring club (6)
25 Capital slump in bad upset (8)
27 Organic defence for the soul? (8)
28 Bit of a bloomer letting it slip out (6)
29 Having just married Wendy, we left to change (5-3)
30 There's no telling if this is to be kept (6)

DOWN

1 Putting out precise directions for cook (7)
2 Fashion criticised and so toned down (9)
3 One boy joined the team (6)
5 Performs with wild cats (4)
6 100% satisfactory (3,5)
7 Landowner to ring up about mid-afternoon (5)
8 Steps taken by riders meeting in point-to-point encounter (7)
11 Soldiers shout about naval lack of leadership (7)
14 Naive woman found in genuine confusion (7)
17 Memorable revolutionary character (3,6)
18 Skilfully holding up confusion in meeting (8)
19 Thoughtful pub holds lottery (7)
21 Sailor's fate under his superior (7)
22 Sea side in an American state (6)
24 Pull in first behind another vehicle (2,3)
26 Border meeting-place (4)



A prize of a Pelikan New Classic 390 fountain pen for the first correct solution opened and five runner-up prizes of £35 Pelikan vouchers will be awarded. Solutions by Thursday April 4, marked Monday Crossword 9,027 on the envelope, to the Financial Times, 1 Southwark Bridge, London SE1 9HL. Solution on Tuesday April 9. Please allow 28 days for delivery of prizes.

Name..

Address..

Winners 9,015

Sally Wilson, Boulogne sur Seine, France
B. D. Adams, Leigh-on-Sea, Essex
D.E. Beever, Norwich
Elaine Ikizer, Stuttgart, Germany
R.D. King, Borgue, Kirkcudbright
Kate Robson, Solihull, West Midlands

Solution 9,015

JOTTER PAD

هكذا من الأجيال

PHARMACEUTICALS

Harder roads to growth

Long-termism was shaken in the 1990s as buyers, from US insurers to European governments, tried to curb healthcare spending, says Daniel Green

The drugs industry, one of the world's most consistently profitable, has risked almost $100bn in two-and-a-half years to restructure itself. Companies have bought rivals, abandoned research programmes, demerged chemicals businesses, laid off thousands of staff and in doing so demoralised many that remained. When bid targets got more expensive, companies merged instead. But finding an ideal merger partner or bid target is becoming tricky.

Many of the easily digestible companies have already been snapped up. The prices of those remaining have risen sharply as investors try to anticipate the industry's next moves.

As a result, some companies are looking instead at the possibility of multi-billion dollar asset swaps. This could keep the wave of consolidation going without overpaying for the privilege.

The force that has driven successful managers to turn their industry upside down is a familiar one: the triumph of short-term pressures over long-term thinking.

Successful drugs companies work with a payback period for investments in research and development of a decade or more.

Companies have always known that it would be easy to improve profitability for a few years by slashing R&D spending. They know that this could start a countdown to a corporate implosion. A year ago, for example, UK drugs company Fisons sold its R&D operations to Astra of Sweden for £202m.

Nine months later, it succumbed to a hostile bid by Rhône-Poulenc Rorer, the French-controlled US drugs company which argued to Fisons shareholders that their company had no future on its own.

For investors, this long-termism worked wonders. Drugs industry sales and profits growth resembled those of high technology companies – 10 per cent plus per year was the norm in the 1980s.

Recessions had little impact and growth came with the reliability of a utility. That combination of reliable high growth has over the past 10 years pushed drug company share prices in the US and Europe up five-fold, according to indices prepared by London stockbroker James Capel. By contrast, the FT-A World Index rose by less than half that.

The culture of long-termism was shaken in the early 1990s as medicines buyers, from US insurers to European governments, fought to control the rise of healthcare spending.

What happened next is the key to understanding the issues facing pharmaceuticals managers today.

As drug buyers introduced cost control measures, drug sales growth stalled. In 1993 sales of prescription drugs from pharmacies increased just one per cent. Investors were stunned. Pharmaceuticals sector indexes compiled by James Capel showed that the peak in early 1992 in US and UK pharmaceuticals shares was not bettered until late 1995.

With shares underperforming and sales growth slowing, executives in many companies decided to boost growth from external sources.

In some cases, such as Glaxo's, a go-it-alone head, Sir Paul Girolami, was replaced by one more sympathetic to the idea of acquisitions, Sir Richard Sykes.

The change had two main effects that still shape drugs company thinking today. First, it led to hundreds of "strategic alliances" between pharmaceuticals companies and start-ups in biotechnology. They ranged from the $2bn Switzerland's Ciba paid for half of California's Chiron in the fourth quarter of 1994 to scores of royalty and cost-sharing deals worth a few million dollars each.

SmithKline Beecham alone has more than 140 such partnerships.

Biotech alliances boost R&D productivity. Top pharmaceuticals companies spend more than $1bn a year on R&D; the price of a biotech alliance is typically under $10m.

The second effect was to trigger a series of takeover bids and mergers designed to boost productivity in manufacturing and marketing.

Deals included American Home Products' $10bn takeover of American Cyanamid in 1994 and Glaxo's £9.1bn bid for Wellcome in the UK a year ago.

Some bids were aimed at improving productivity in distribution and sales.

Drug distribution management companies were bought by Merck and Eli Lilly of the US and SmithKline Beecham in 1993 and 1994 for a total of more than $12bn.

These strategies have been in part vindicated by the sharp rise in sector share prices during the last year as profits and sales growth recovered.

Nevertheless, there are still question marks over some of the deals.

Continued on Page II

World pharmacy drug purchases January- December 1995

Figures in $m	US	Japan*	Germany	France	Italy	UK	Spain	Canada	Netherlands	Belgium
Cardiovascular	8,371	4,071	3,824	3,551	1,639	1,036	940	720	377	393
Alimentary/metabolism	8,875	4,900	2,820	2,348	1,296	1,249	785	553	465	301
Central nervous system	9,685	1,292	1,183	1,813	803	887	590	573	249	322
Anti-infectives	5,277	3,511	1,190	2,018	1,007	464	608	254	127	243
Respiratory	5,953	2,325	1,756	1,309	549	956	484	367	293	198
Blood agents	2,586	2,451	674	915	446	118	278	224	105	84
Musculo-skeletal	2,185	2,611	845	718	455	378	245	170	86	103
Others	11,818	5,381	3,593	2,444	1,460	1,159	837	695	369	344
Total	54,710	26,442	16,515	15,116	7,655	6,246	4,767	3,556	2,071	1,988
% change**	10	8	7	6	4	9	11	4	5	8

Source: IMS International

*Non-hospital market only **Increase excluding currencies

Worldwide pharmaceutical sales by market share

1994 Ranked by sales	Company	Market share %	1995 Ranked by sales	Company	Market share %
1	Glaxo	3.6	1	Glaxo Wellcome	4.7
2	Merck	3.4	2=	Merck	3.5
3	Bristol-Myers Squibb	3.2	2=	Hoechst Marion Roussel	3.5
4	Roche	2.8	4	Bristol-Myers Squibb	3.1
5=	Johnson and Johnson	2.7	5	American Home Products	3.0
5=	Pfizer	2.7	6=	Pfizer	2.9
7=	Smithkline Beecham	2.5	6=	Johnson and Johnson	2.9
7=	Ciba	2.5	8	Roche	2.6
9=	Hoechst	2.3	9=	Smithkline Beecham	2.5
9=	American Home Products	2.3	9=	Ciba*	2.5
Top 10		28.0			31.2
11	Bayer	2.2	11	Rhône-Poulenc	2.2
12	Eli Lilly	2.1	12	Bayer	2.1
13	Sandoz	1.9	13	Eli Lilly	2.0
14=	Rhône-Poulenc	1.8	14=	Sandoz*	1.9
14=	Schering-Plough	1.8	14=	Schering-Plough	1.9
16	Abbott	1.7	16=	Astra	1.8
17	Astra	1.6	16=	Abbott	1.8
18=	Takeda	1.5	18	Pharmacia & Upjohn	1.7
18=	Sankyo	1.5	19=	Sankyo	1.6
20	Boehringer Ingelheim	1.4	19=	Takeda	1.6
Top 20		45.5			49.8
Worldwide sales of prescription drugs		$185bn			$205bn

*Ciba and Sandoz to merge with market share of about 4.4%

Source: IMS AG Pharmaceutical World Review 1995 edition. Source: 1996 edition

Changes over time: Burroughs Wellcome – a century on, part of Glaxo Wellcome *The Wellcome Institute Library, London*

IN THIS SURVEY

Editorial production: Anthony McDermott
Design: Robin Coles
Graphics: Steven Bernard

■ **Management consultants:** by Tim Dickson

Reaping the benefits of radical market changes

Consultants are basically helping the merging partners to run the process themselves

Management consultancies on both sides of the Atlantic are enjoying strong revenue growth at the moment as companies seek outside help to cope with market change, restructuring, and the strategic imperatives of globalisation. Mergers in the pharmaceutical industry have been inspired by all these factors

> The prospect is that the market is about to witness yet more lucrative work for advisers

– and many consultancies have duly reaped the benefits.

Fees earned by corporate finance teams, underwriters and even public relations agencies frequently come under the spotlight after big takeover deals. But the role of consultants in assisting the integration of two previously separate companies seldom receives attention.

Many of the issues – communication, team building and cost cutting, for instance – are common to all business sectors. What makes pharmaceuticals stand out at the moment is the relatively large number of significant industry participants – perhaps 300 to 400 worldwide – and the prospect that the market is about to witness a further concentration of power and hence lucrative work for advisers.

This month's merger of Sandoz and Ciba into a new business called Novartis, for example – notwithstanding the fact that it is the 16th in a string of healthcare tie-ups each worth £1bn or more since January 1994 – was accompanied by predictions that the deal making is far from over.

Consultants generally dislike talking numbers but Roland Berger & Partner, the leading German-based company, reckons that between 8 and 11 per cent of its DM350m worldwide turnover was accounted for by pharmaceutical projects. Mr Michael Thiess, partner responsible for the healthcare practice, says the company has carried out around 100 projects in the sector over the last two years.

Mr Thiess believes that consultancies can perform the valuable role of "process manager" in the wake of a merger. Roland Berger was closely involved in the merger of five separate pharmaceutical wholesaling businesses into the Phoenix Hamahandled group. This project took 14 months and involved putting together companies with different cultures which in some cases had previously been competitors.

This created tensions in the early phase as the consultants investigated areas in which costs could be saved and started developing a new strategy. In the second – when decisions about locating a single IT centre and choosing the best marketing concepts and logistics systems had to be made – the importance of good teamwork shone through.

Mr Thiess believes consultants "should not be too much on the stage." Pharmaceutical companies have increasing numbers of good people "and it is good if they can do the work themselves."

This does not mean, however, that he and his colleagues are redundant. "In mergers you do not have the same control systems; in each company, for instance, you tend to find different definitions. Defining what they mean by profit and turnover can be a very big problem and at this stage we have to do the work. It can be too emotional for the companies themselves," he says.

This said, Pharmacia and Upjohn, the company formed last year through the merger of Sweden's Pharmacia and Upjohn of the US, has managed to move quickly to cut deep into its cost base without the help of management consultants. This month the group announced plans to shut 40 per cent of its manufacturing sites and to cut 20 per cent of its research projects. It had already announced job losses of 4,100 out of a total workforce of 34,000 and expects total savings to reach $800m by the year 2,000.

The friendly terms of the merger – rare among recent deals – and the impressive for-

> Within four weeks, there were about 1,000 people from both sides working on the merger project

ward planning clearly eased the process of integration. According to Mr Anders Harfstrand, the company's chief communications spokesman, Pharmacia's experience of merging with the Italian group Pharmatelia in 1993, and Upjohn's expertise in re-engineering also helped.

Within four weeks of the merger announcement on August 20 last year, there were around 1,000 people from both sides working on the merger in project teams.

"As with the 1993 takeover, the process has been based on taking the best from both sides and trying to optimise the culture. In our case the Swedish and American approaches were totally different – Upjohn was quite a functional company, Pharmacia was quite decentralised – but we are not trying to mix the cultures.

"The whole time we are trying to look for new solutions; we need to renew our thinking. We don't want to take anything for granted and assume that just because we had a department responsible for a particular activity before that, this is the way we will do it in future," he says.

Mr Harfstrand is sceptical of management consultants, drawing a parallel with the clinical research organisations to which drug companies sometimes licence their products. "You can't leave anything to them. You can't have them as project leaders," he says. "It is too important. Consultants in the past have taught us how to run processes but there are now 50 top people in the company who can run the processes themselves.

"It wouldn't be fair to shareholders and the board – this activity is a management responsibility. The people with the right experience are in the company, or they are customers."

The consultants at Boston Consulting Group, one of the UK leaders in the pharmaceutical field and an adviser to Glaxo Wellcome, would beg to differ. Mr Barry Jones of BCG says that the importance of "a vigorous process" is heightened in the pharmaceuticals sector because of the relatively large size of the companies which merge, the extent of the overlaps (often due to co-location), and the contrasts in culture. BCG, says Mr Jones, helped Glaxo Wellcome design the integration process, and has helped manage the process, including the establishment of task forces from both sides, and the setting of clear priorities and milestones.

The firm has been involved in appointments and internal communications. Mr Jones says the merger has been "an honest and transparent" process which benefited from a high degree of planning up front (Glaxo had put in place much of the post-merger integration structure while the bid was still hostile).

He agrees with Roland Berger that "ownership by management, ownership by the line" is essential. "What we are basically doing...is helping them run the process."

■ **Biotechnology partnerships:** by Lucy Clarke

'Like venture capitalists'

The industry gets a chance to eye new technologies without a large commitment

"The pharmaceutical industry's research and development operations are beginning to look more like venture capitalists – whereas in the past they had to manage a large portfolio of product development programmes, today they have to manage a large portfolio of biotech alliances," says Mr Steven Burrill of the US private merchant bank, Burrill and Craves.

This is a turnaround from five years ago, when the biotechnology industry faced an uphill struggle in its attempts to woo pharmaceutical multinationals into collaborative partnerships. "The biotechs tried very hard to attract the attention of the major pharmaceutical companies but were basically swimming upstream," says Mr Burrill.

Now the pharmaceutical companies are driving a new wave of partnerships. He says: "Five years ago, the research and development guys in big pharma spent most of their money within their industry." Five years ahead, most spending would be outside.

The pharmaceutical industry invests around $3.5bn a year in partnering, according to Burrill and Craves estimates. The three (now two) Swiss large companies, Sandoz, Ciba and Roche – seen as the leaders in alliance-making – have forged deals with more than 100 companies, mainly in the US.

Mr Jürgen Drews, president of Roche global research, says: "The tools of innovation are rarely in the hands of one company, therefore to access them, you must collaborate to assemble the critical elements."

It is estimated that together, the three have spent more than half the entire drug industry's investment in biotech – amounting roughly to $7bn – since 1990.

But this is still a small percentage of the $40bn invested annually in R&D by the pharmaceutical sector worldwide. Mr Burrill believes that partnering will eventually account for 25 per cent of this figure.

There is no shortage of creativity in the approaches to pharma-biotech alliances, although outright acquisitions are no longer the first choice. Deals such as Roche's 60 per cent stake in the US biotech giant, Genentech, and Sandoz' acquisition last year of Genetic Therapy Inc are the exceptions to the rule. Most multinationals believe you get better value for money through alliances.

Dr Peter Ringrose, senior vice-president of world wide R&D at Pfizer, points out that in acquiring a biotech company, there is a danger of destroying that which you value most – independence and entrepreneurial spirit. Instead, Pfizer has set up a dedicated consortium, Pfizergen, as part of a "conscious strategic plan directed at specific technologies to complement Pfizer."

Today Pfizergen comprises 12 biotech companies, focused on genomics, diagnostics, screening automation and new science. Around $100m a year is set aside to initiate alliances and $200m a year to maintain them – for equity, milestone and royalty payments. Dr Ringrose expects the number of companies under the Pfizergen umbrella to grow steadily towards the year 2000, eventually encompassing 25-30 alliances.

"Pfizer research concentrates on 17 different therapeutic areas, but anything that has a clear medical need is considered. There are no no-go areas," he says. Alliances which overlap with existing

> Those alliances which overlap with existing research are also perceived of as being beneficial

research are also perceived as beneficial – "Pfizer tries to have as many approaches as make sense and that it can realistically resource."

Alliances also give the pharmaceutical industry the opportunity to keep a watching brief on emerging technologies, without risking a significant commitment. Both Pfizer and Bristol-Myers Squibb have tied up with US-based biotech companies – Immusol and Somatix respectively – in the area of gene therapy. Neither of the two multinationals have internal gene therapy R&D programmes, but both want to keep pace with developments so that they can move into the field when it looks more viable.

BMS, which was involved in eight collaborative agreements and invested $168m in its large biotech deals last year, expects to use alliances to access new therapeutic areas, such as osteoporosis or asthma, according to Dr Marilyn Hartig, vice-president of the external science and technology division. She describes the company's attitude to alliance-making as "proactive hunting", but she also stresses that there is a limit to the number of deals BMS can realistically strike because they "ultimately detract from the internal R&D programme."

One company that has not set limits on its alliance-making is the UK-based company, SmithKline Beecham. It is seen as one of the most aggressive multinationals in shaping deals, and over the past five years, it has entered into a total of 30 collaborations with biotech start-ups as well as more than 100 alliances with academic institutions.

"The pace and scope of technological change is so dramatic and costs are escalating so rapidly that no one can be self-sufficient," says SB's chairman of R&D, Dr George Poste.

The company has moved on from pure biotech, however, because this has not proved "as potent a contributor of new products as originally expected," according to Dr Poste.

Instead SB now focuses on platform technologies that will affect all aspects of drug discovery, such as genomics, combinatorial chemistry and bioinformatics – most notably through its 1993 $125m deal with Human Genome Sciences.

Is there a disadvantage to this interest in biotech alliances? Dr Ringrose says that the two industries operate on different timescales and often have divergent expectations: "The pharmaceutical company is more able to absorb longer timelines because of its available resources. Biotech companies need regular positive announcements to keep their share price up and investors happy." And because of market pressures, the biotechs are more likely to cut corners than the multinational. "Therefore it can be difficult to mesh the needs and desires because the biotech company puts speed ahead of other priorities," Dr Hartig says.

Product failures, such as the Merck/Celltech asthma drug, CDP 840, are not so crushing for the pharma partner as for the highly exposed biotech company. The pharmaceutical industry expects only one in 10 development-stage drugs eventually to make it to market.

Merck's executive director of corporate communications, Mr John Doorley, observes that pharmaceutical research "is about failure, especially in the early stages...Merck's confidence has not been shaken."

Soothsayers are upbeat about pharma-biotech relationships and believe they are here to stay. The partnering strategy has allowed the biotech industry to avoid the forecast consolidation and shrinkage of the sector and more small companies can now survive. Dr Hartig believes that the current picture of co-operation has almost reached a steady state "which is very favourable to both industries."

Dr Poste expects the consortium approach to gain in popularity as the technology base becomes more diffuse and the need to integrate a wide variety of skills increases. He adds that escalating costs will also encourage the formation of consortia, as has happened in the telecommunications and aerospace industries. face

Lucy Clarke is Editor of FT Biotechnology Business News.

Key to abbreviations

Acronym	Definition
AHP	American Home Products
AMGN	Amgen
AST	Astra
B Mann	Boehringer Mannheim
BMS/BMY	Bristol-Myers Squibb
BYR	Bayer
CHF	Congestive heart failure
CHUG	Chugai
DPS	Diversified Pharmaceuticals Services
GAAP	Generally Accepted Accounting Practice
GENE	Genentech
GLX	Glaxo Wellcome
HMO	Health maintenance organisation
HOE	Hoechst
JNJ	Johnson and Johnson
LLY	Eli Lilly
MMD	Marion Merrell Dow
MRK	Merck
NVO	Novo-Nordisk
OTC	over-the-counter (ie non-prescription)
PFE	Pfizer
PHU	Pharmacia & Upjohn
PPRS	Pharmaceutical price regulatory scheme
ROC	Roche
RPR	Rhône-Poulenc Rorer
SAND	Sandoz
SANK	Sankyo
SB/SBH/SKB	SmithKline Beecham
SCH(G)	Schering
SERONO	Ares-Serono
SFI	Sanofi
SGP	Schering-Plough
SHINOGI	Shinogi
SNDZ/SAND	Sandoz
SUMI	Sumitomo
SYNT	Syntex
WLA	Warner-Lambert
YAM	Yamanouchi
ZEN	Zeneca

Harder roads to growth

Continued from Page I

The acquisition of the distributors, in particular, have not boosted profits in proportion to the investments.

Nevertheless, industry analysts believe that the restructuring has some way to run.

Their reasoning is that even Glaxo Wellcome, the world's biggest drugs company by turnover, has only just over 5 per cent of the world market.

Other industries whose products sell in every continent are far more concentrated. General Motors has more than 18 per cent of global vehicle sales. Passenger aircraft manufacture is dominated by Boeing and Airbus.

In personal computers, Compaq, IBM and Apple each have more than 10 per cent of the global market.

So restructuring could continue for years. It appears, however, to be changing shape.

The wave of deals has triggered sharp increases in the share prices of many mid-sized drugs companies. Investors have bought shares in companies they see as potential bid targets.

The likes of Zeneca in the UK and Schering-Plough in the US have increased by 50 per cent since January 1995.

The last large bid, Glaxo's for Wellcome, was launched in January 1995 before most of the sharp rises in drug company share prices.

The most recent deals have been the friendly mergers of Sweden's Pharmacia and Upjohn of the US, and of the two Swiss companies Sandoz and Ciba this month. These share swap deals have avoided the need for cash payments.

But both mergers were of similar-sized companies, enabling talks to start without one side clearly having the upper hand.

And both had top executives on the point of retiring, thus side-stepping the ego clashes that can prevent mergers. Such neat pairings are hard to find.

There is a clear alternative to bids and mergers, says Mr Fritz Gerber, chairman of Switzerland's Roche, one of the companies often rumoured in stock markets to be on the verge of a large bid.

Companies can exchange assets instead, he says. This retains cost-cutting possibilities while preserving corporate independence and cash balances.

Such deals can strengthen a company's market share in a specific medical area such as heart disease or cancer, says Mr Gerber, adding that this may be more important for profitability than total market share.

He is not alone in his analysis. "The total pharmaceutical sector contains literally hundreds of markets, each totally separate," says Mr Anthony Wild, president, North America, at Parke-Davis a subsidiary of US company Warner-Lambert. "One company, for example, could successfully dominate in the oral antibiotic market while still having a small overall share of the [drugs] sector."

Mr David Barnes, chief executive of UK company Zeneca, says that his company can stay independent because it is number two in cancer drugs although it is outside the top 15 pharmaceuticals companies.

And large scale asset swaps organised by medical area would not be unprecedented. In the summer of 1994, SmithKline Beecham and American Cyanamid discussed an exchange of businesses with combined annual sales of more than $3bn. The deal would have made Cyanamid the world's biggest vaccines maker and boosted SmithKline's ranking in consumer medicines. The revelation that the two were in talks was followed within hours by American Home Products successful bid for Cyanamid.

The age of the multi-billion dollar hostile bid in the drugs sector may not yet be over. Roche, for one, says it is continually analysing potential bid targets. It has shown their willingness to splash out, paying $5.3bn for Syntex of California in 1994.

But at the time of Glaxo's bid for Wellcome, the pharmaceuticals sector was on an average price/earnings ratio of 12.4, according to London stockbroker BZW. By the end of 1995, it was almost 21. Even though today the figure is about 19, that is too expensive for many. "It's not a question of raising $25bn to buy someone like Zeneca. That's easy. It's a question of what you get for the money," says the chief executive of one top 15 pharmaceuticals companies.

Bids and mergers are not off the agenda in the pharmaceuticals industry. But the price of medium-sized and large and companies are at record highs. If friendly mergers cannot be organised, then asset swaps or other means may need to be arranged to boost profits growth quickly.

Recent principal M&A activity

Date	Purchaser	Target	Cost	Activity
04-94	Rhône-Poulenc Rorer	95% of Cooper	FFr2.8bn	Distributor
05-94	Roche	Syntex	$5.3bn	R&D/manuf./marketing
05-94	SmithKline Beecham	DPS	$2.3bn	PBM/distribution
05-94	Sandoz	Gerber	$3.7bn	Nutrition
07-94	Lilly	PCS	$4.0bn	PBM/distribution
08-94	Ivax	Zenith	$0.6bn	Generics
09-94	Bayer	SB	$1.0bn	OTC(US)
09-94	AHP	Cynamid	$9.7bn	R&D/manuf./marketing
09-94	BMS	UPSA	$0.7bn est	Manuf./Euro distribution
11-94	Ciba	Chiron	$2.1bn	Biotechnology R&D
12-94	Pfizer	SB	$1.45bn	Animal health
1994	TOTAL DEAL VALUE		$37.9bn	
01-95	Colgate	AHP (Kolynos)	$1.04bn	Oral healthcare
01-95	Glaxo	Wellcome	£9.49bn/$14.8bn	R&D/manuf./marketing
01-95	Glaxo	Affymax	$0.53bn	R&D
02-95	Hoechst	MMD	$7.14bn	R&D/manuf./marketing
04-95	BASF	Boots Pharmaceuticals	$1.3bn	R&D/manuf./marketing
04-95	Watson	Circa	$0.61bn	Generics
07-95	Clariant	Sandoz	$2.0bn	Chemicals division
08-95	Pharmacia & Upjohn	merger	-	R&D/manuf./marketing
08-95	RPR	Fisons	$2.7bn	R&D/manuf./marketing
11-95	Johnson & Johnson	Cordis	$1.8bn	Medical technology
1995	TOTAL DEAL VALUE		$34.7bn	
03-96	Sandoz/Ciba	merger	-	R&D/manuf./marketing

Source: James Capel

■ **US healthcare reform:** by Victoria Griffiths

Companies feel at ease

But public concern remains strong and the issue could return to the legislative agenda

In late February, the Prime Institute at the University of Minnesota announced what were to many shocking statistics. The list prices of the 500 most prescribed drugs in the US had climbed 4.6 per cent in 1995, compared to 2.5 per cent inflation.

The price increases indicate the extent to which pharmaceutical companies have become increasingly at ease with the legislative climate in the US affecting their activities. Tremors over the proposed price caps under the health plan partly drawn up and championed by Hillary Clinton a few years earlier had led many of the big drug manufacturers to pledge that they would not boost prices at a faster rate than inflation. Their willingness to do so now shows the fear of price controls has receded.

To the glee of the pharmaceuticals industry, large-scale health reform seems to have vanished from the US political agenda. The issue, which played an important role in the presidential election four years ago, is conspicuously absent from this year's campaign rhetoric. "Everyone's learned a lesson from our bad experience," said one senior White House official. "We didn't listen when Washington insiders warned us away from the issue, and we ended up bloodied politically."

Yet the failure of presidential hopefuls to address the issue does not mean the pharmaceuticals industry will remain immune from legislation. Public concern over the problem remains strong, and the sector may begin to feel again the tug of politics and market forces before too long.

"This issue is just on the back burner right now," says Ms Gail Wilensky, senior fellow at Project Hope and a former senior healthcare adviser to President Bush. "All the problems are still there – the large number of uninsured and rising health care costs. At some point they will definitely reassert themselves and the government will have to do something." The number of uninsured in the US is rising, with over 40m Americans now uncovered, according to the Census Bureau, compared with about 37m four years ago.

Despite the worries of many Americans over healthcare, most believe the concept of universal coverage will not be revived for many years, if at all. "Universal healthcare is dead forever," says Mr Henry Aaron, director of economic studies at the Washington DC Brookings Institution.

That is seen as good news by many in the industry. Yet other bills now making the rounds on Capitol Hill could have a deep impact on the sector in other ways. Medicare, which provides health coverage – including drug treatments – to the elderly, has been targeted for budgetary savings under the Republican Congress.

Because senior citizens are among the most voracious consumers of medicine, and about 15 per cent of the country's elderly rely exclusively on Medicare for coverage, new legislation could seriously hamper drug sales.

"Medicare cuts could mean fewer sales for pharmaceuticals, especially of products heavily consumed by the elderly," says Mr Joshua Wiener, a senior fellow at Brookings. Other legislation may have a positive effect by boosting insurance coverage. The more insured people there are, the more demand companies are likely to see for their products, at least for prescription medicines.

Two proposals in Congress at present aim to make it easier for individuals and groups to obtain and hold on to insurance. The Kassebaum-Kennedy bill in the Senate and the Thomas Bill in the House would guarantee that workers could take their policies with them when they leave their jobs, and prevent anyone from being denied coverage due to existing illness.

Other legislative issues could also affect the industry over the next few years. Patent protection is a key issue, since the sector could suffer if the government eases the way for generics on to the market.

The future of health maintenance organisations (HMOs) – large co-operatives formed to provide greater bargaining power and lower the cost of health care – is also key.

Some analysts believe HMOs depress pharmaceuticals prices by cutting deals with suppliers and turning to generics whenever possible. Others point out that HMOs often aggressively prescribe medicine to avoid repeated doctors' visits.

Victoria Griffiths writes for the FT on technology matters

Possible healthcare reforms in 1996

US	Japan	Germany	France	Italy	UK	Spain	World
Per capita limits on Medicaid spending	6% price cuts on April 1, >6% for high priced successful products	Increase in parallel imports	Stricter prescribing guidelines	Reference pricing at level of cheapest drug (April 1)	National formulary for GPs	Development of generics market	Further consolidation of the industry worldwide
Budgetary constraints on Medicare	Raised price premium for innovative drugs to 40-60% (previously 20-30%)	Positive list instead of reference pricing	Development of generics industry	Compulsory 50% discount on expensive drugs to GPs	Buying consortiums for GPs	Increase in parallel exports to rest of Europe	Increased parallel exports in Europe
Discussions about the introduction of medical savings accounts to control spending	Lower prices for generic drugs; 20% discount from 10%	Development of a form of managed care	2.1% cap on GP medical spending	Increased use of generics	Review of PPRS scheme	Price cuts	Expansion of generics market
Further squeeze on pharma industry as HMOs come under pressure	Sales target for new drugs	Introduction of mail order	GP's fee increase to be dependant on keeping within cap	Streamlined reimbursement system. Product delistings	Evolution of a form of managed care at regional level	Government contracts on sales and prices etc	Faster regulatory approvals
	Extension of flat fee reimbursement to new areas		Development of managed care	New procedures for setting prices	Labour government		
			FFr2.5bn tax on industry for excess sales in 1995	Limits on promotional expenditure			

Source: James Capel

■ **Pharmaco-economics:** by Daniel Green

Getting value for money

The Lescol case shows that doctors no longer decide what to prescribe in isolation

The age of value for money has arrived in the pharmaceuticals industry. That, at least, is what pharmaceuticals industry executives say when justifying the increasing amounts spent studying the costs and benefits of different medicines. None thinks the money is wasted. Some believe that it could help change government health policy.

Most big drugs companies now have whole departments devoted to economic work. Pfizer, the US drugs company, is typical in involving economists early in the research process to help answer the question "what value comes with this product?"

The reason for their enthusiasm is that the customers have changed. A decade ago they were dominated by doctors. The prescribing decisions made by doctors were on the whole independent of the desires of those who paid for drugs, namely governments and insurers. In those days, the drug companies' task was simple: to persuade doctors that one drug was medically better than a rival.

The differences revolved around whether patients were likely to take them properly (a pill once a day was an advantage over twice-a-day), what else the patient was taking (some drugs interact with others) and the side effects.

Differences were ruthlessly exploited. Glaxo launched its ulcer drug Zantac in 1983 at a 40 per cent higher price than that charged for Beecham's Tagamet. Zantac is still the world's biggest selling drug. Times have changed. When SmithKline Beecham launched Famvir in competition with Wellcome's Zovirax two years ago, it was priced at a discount even though it claimed better performance. And when Sandoz launched its new cholesterol-lowering drug Lescol in the US in 1994, the price was at less than half that of other cholesterol lowering-drugs made by US companies Merck and Bristol-Myers Squibb.

Dr Daniel Vasella, president-to-be of Novartis, the drug company formed by the merger of Sandoz and Ciba, says that the strategy was not to compare prices with those of similar drugs but with different drugs aimed at similar diseases. Cholesterol-lowering drugs are expensive; heart disease drugs much cheaper.

The Lescol case demonstrates clearly that doctors no longer decide what to prescribe in isolation from those who pay for the drugs. The US has seen the rapid growth of managed care, a system in which the various components of healthcare, from intensive care beds to medication, are managed to try to limit costs. More than half the money spent on prescriptions from retail pharmacies, as opposed to hospitals, is now paid for by managed care organisations, according to IMS America, the specialist drugs market research organisation.

Some countries have institutionalised or legislated for cost-awareness. In Australia and Canada, regulators now insist on economic data being supplied with the reams of clinical trials results. Others, notably France, study the likely costs of drugs carefully before agreeing with the drugs company a "reimbursement price", the price at which the government is prepared to pay the supplier when doctors prescribe the drug. "Much pharmaco-economics is aimed at regulators," says Mr Vic Micati Pfizer's vice-president for Europe. "Officially they are only interested in safety and efficacy, but unofficially it is another story."

According to Mr Peter Lauper, head of pharmaco-economics at Swiss company Ciba, the importance of economic studies is increasing. "It's not mandatory in all countries but if you want to have a good price for your drug you have to be very well prepared."

In France, drugs economics is one of the pricing criteria, he says. In Germany, drugs companies have to demonstrate cost-effectiveness to the sickness funds which pay for most healthcare there.

"In Spain you have a drug pricing process based on all kinds of criteria – they are looking around on what is available in the rest of Europe in terms of price comparisons and cost-effectiveness," he says. "In the UK, general practitioner fundholders [GP practices that manage their own budgets] are beginning to change things towards cost-awareness," says Mr Lauper.

The breadth of the changes mean the work being done on the economics of drugs must fulfil a spectrum of needs ranging from marketing to regulatory affairs. Unsurprisingly, there are several different approaches being taken.

They fall roughly into the following categories:-

- Pharmaco-economics looks at the costs and benefits of prescribing a medicine or a group of medicines.
- Health economics broadens this to include healthcare procedures only partly or not at all related to the use of drugs.
- Outcomes analysis goes yet further in comparing not only costs but the health of the patient after undergoing one treatment or another.

The pharmaceuticals industry is a strong supporter of this third classification because it believes that it has been unfairly singled out by payers for cost-control measures. If only the costs of all treatments were examined as closely as drug costs, runs the thinking, the pressure on drugs companies might ease. The idea of outcomes analysis also adds a favourable gloss to the whole enterprise of bringing economics into a world where the well-being of the patients has been paramount.

While Pfizer's Mr Micati says that pharmaco-economics is "sophisticated marketing", and that "marketers and economists are on the same team", a different view is taken by Mr Joe Jackson, executive director of outcomes research at Pfizer's US rival BMS.

"Healthcare is to promote health, not a crass commercial enterprise," he says. "I call it outcomes research because I'm interested in the outcome rather than the economics. We find the outcome and give it a value." He argues that picking the outcome with the best value leads to a more commercial enterprise rather than the other way around. "You don't have to compromise on good value for money. The auto industry had a wake-up call [from Japanese manufacturers] and had to produce better value for money. Now we've had a wake-up call," he says.

One unresolved issue about the conduct of economic studies is that of the best way to do them.

"It's very difficult to demonstrate the economics with rigour," says Mr Micati. "It is difficult to design scientifically valid studies. And there is a big problem with chronic treatments such as for Alzheimer's disease because it may take years or decades to demonstrate cost-benefits."

Even if such studies could be conducted, they are of limited use in persuading drugs buyers to pay for expensive products. "For someone worried about this year's budget, that's a 'so what?' study," says Mr Micati.

The drugs industry is keen to stop regulators from including cost effectiveness questions. It acknowledges that studies on the cost implications of new drugs are important, but says that more regulation is unnecessary.

■ **Research and development:** by Clive Cookson

Cultural pursuits

Practical questions include assessing differences and relating these to productivity

The pressure throughout the pharmaceuticals industry to increase the productivity of research and development, coupled with the wave of mergers and take-overs, is drawing more attention to the important but elusive issue of "R&D culture".

As senior managers in merged companies blend together R&D departments, they have to anticipate potential culture clashes and look for the best practical model for the combined operation.

And managers throughout the industry are beginning to examine their own R&D culture for signs that it may be inhibiting efficiency.

What then does culture mean in this context? Management specialists have put forward many alternative definitions. A good way of describing it informally is "the way we do things around here."

The UK-based Centre for Medicines Research, which is just starting a worldwide survey on corporate culture in the pharmaceutical industry, uses this definition: "Shared attitudes, values, beliefs and assumptions of the people in an organisation."

Researchers who have worked in several companies say that, although differences are being reduced by the increasingly global nature of R&D and growing staff mobility, the world's large pharmaceutical groups are still far from uniform in their culture.

Dr Göran Ando, head of science and technology for the recently-merged Pharmacia and Upjohn, has had senior R&D jobs over the past 10 years with Bristol-Myers of the US, Glaxo of the UK and Astra and Pharmacia of Sweden. He does not want to impose cultural uniformity.

"We benefit from harnessing cultural differences within a company," Dr Ando says. "Looking at different ways of solving problems can be a strength to the company."

Within his new Swedish-American company, the old Upjohn culture "where chemistry is king" is complementing the biological orientation of Pharmacia. "We are trying to mix the cultures a bit – which is quite different from trying to establish one culture," he says.

Glaxo Wellcome, the new UK giant created last year in the drugs industry's biggest take-over, has a different attitude. "We are trying to have one Glaxo Wellcome culture," says Dr Jim Niedel, R&D director.

Although both Glaxo and Wellcome were research-driven companies, there were obvious contrasts between the latter's outstanding scientific heritage – a legacy of its previous ownership by the charitable Wellcome Trust – and the former's strong commercial drive.

> Glaxo found in Wellcome's R&D portfolio quasi-academic projects with inadequate funding

Although Wellcome became steadily more market-oriented after the trust floated the company on the stock market in 1986, its research retained a distinct university flavour until the take over.

When Glaxo managers examined the Wellcome R&D portfolio last year, they found a large number of quasi-academic projects that had been pursued for several years with funding that was, by Glaxo's standards, inadequate.

They were either dropped or given a new level of funding and priority in the combined company.

Another distinctive aspect of Wellcome's R&D culture, which derived directly from the personal interests of Henry Wellcome, the company's founder, was its interest in tropical medicine and developing countries. Dr Niedel says Glaxo Wellcome has taken this on board, with active R&D projects in diseases such as malaria, tuberculosis and hepatitis.

Looking back, Dr Niedel says: "I would characterise Glaxo as more decisive, Wellcome as more resourceful. If we could be both decisive and resourceful, that would be the ideal outcome."

He is also seeking "a balance between opportunism and tenacity." That means making a long-term scientific commitment to some areas, while seizing opportunities presented by outside research in other areas.

Dr Ando says an important aspect of a company's R&D culture is how open it is to the outside world. "We see significant differences in whether novel ideas are generated in-house or outside. I believe that most novel ideas will be generated outside the company."

While Pharmacia and Upjohn looks to universities and smaller biotechnology companies for its new ideas, several other large companies such as Pfizer and Merck of the US take pride in doing as much as possible in-house, from the earliest stages of exploratory research onwards.

"We see discovery operations as a core competence," says Dr Peter Ringrose, head of discovery and medicinal R&D at Pfizer.

Another important feature of the Pfizer R&D culture, Dr Ringrose says, is its stability. "We haven't had the churning effect that we've seen in some other companies."

The practical questions, which the Centre for Medicines Research is now beginning to address, include: Can cultural differences can be assessed objectively? Can these be related to R&D productivity and efficiency? How can cultures be changed?

The first step in the CMR project, co-ordinated by Ms Shaida Dorabjee, is to carry out a pilot study among five large drugs companies, in association with Coopers and Lybrand, the management consultancy. Two alternative questionnaires are being circulated in order to find the best way of investigating R&D cultures.

Preliminary results will be discussed at a meeting in May. Then, provided all goes well, the CMR will proceed to a full-scale study, relating cultural differences to benchmarks of efficiency.

■ **Over-the-counter marketing:** by Friedrich Förster

A changing policy environment

Healthcare groups are looking for new acquisitions to increase their market in Europe

The sharp increase in healthcare spending, which today amounts to almost 10 per cent of the gross domestic product of many European countries, has brought about considerable changes in the environment of healthcare policy.

Almost all the participants interacting in the healthcare system are increasingly focusing their interest on the over-the-counter (OTC) market, and good prospects for this market's growth throughout Europe are predicted.

The rates of growth fluctuate between three and 10 per cent annually, with strong differences between the individual European countries and the market segments.

The need to cut costs creates even greater activity throughout the entire sector of healthcare policy. Governments are keen to encourage greater availability of OTC drugs, because the citizens pick up the bill in their role as patients or consumers, not as taxpayers. In many countries, an increase in the tax burden is hardly feasible any more.

Another driving force is found in the industry and retailer supply of OTC drugs. The numerous cost-cutting measures initiated in the healthcare system have in part led to a considerable drop in the sales of prescription drugs.

To compensate for these losses, an increasing number of pharmaceuticals groups are attempting to intensify their efforts to establish themselves in the OTC and generic drugs market. Until just a few years ago, many companies did not consider either of these sectors to be fitting for their businesses.

In addition to the classic suppliers of medications, other manufacturers and business enterprises are also attempting increasingly to participate in the OTC market.

Growing market volume and margins (between 15 and 25 per cent) make this market attractive for many suppliers with a similar product range, such as fast-moving consumer goods producers like Nestlé and Gervais Danone. Mail-order houses and retailer chains are making increasing efforts to check out current opportunities, especially in the large, relatively strictly regulated markets of France and Germany. Gehe, the largest European pharmaceuticals wholesaler, has a sizeable market share in both of these countries. Its endeavours to acquire Lloyds Chemists with its 400 pharmacies are certainly also based on the reasoning that businesses want to be prepared for a potential deregulation of the pharmacy market in continental Europe.

Large mail-order companies such as Otto and Quelle are also very carefully examining the possibilities of getting into the OTC business extensively. Quelle has already come out with a special catalogue for healthcare products.

The health consciousness growing among people in numerous industrial countries has had an important impact on the growth in the OTC markets. Topics such as prophylaxis and the desire to keep fit raise the willingness for self-medication, as does the call for people to assume more personal responsibility, particularly for their own health.

Doctors and consumer organisations view the growing supply of non-prescription drugs and their consumption with a great deal of distrust. However, with some arguments it is obvious that a number of private practitioners are afraid of suffering disadvantages in a recessionary environment.

Economies of scale and developing an operatively effective size – a "critical mass" – are decisive factors of performance in an OTC market in which competition is becoming more intense. These can be achieved by pharmaceuticals companies' having a broad, worldwide commitment to investment.

At present, almost all healthcare groups are looking for new acquisition opportunities in order to increase their market power in Europe. This is clear from the prices being paid for target companies.

In view of falling margins, an acquisition price of two times the amount of annual sales or more can only be justified from a strategic point of view. SmithKline Beecham, for example, was able to more than double its market share in recent years, particularly through the acquisition of OTC activities from Sterling. With its current market share of more than 6 per cent, it has now become the largest supplier of OTC products in Europe, clearly overtaking the former front-runner Rhône-Poulenc Rorer, which has a 4.1 per cent market share.

> SmithKline Beecham is now the largest supplier of OTC products in Europe

The systematic way in which SB is expanding its OTC operation is demonstrated by its acquisition of Abtei, Germany's leading non-pharmacy OTC company for vitamins, minerals and supplements (VMS). This took place at end-1995 and helped to strengthen SmithKline Beecham's position in the German market.

Furthermore, its excellent position in pharmacies with the leading multi-vitamin product Eunova and the vitamin C product Cetebe will be extended to the non-pharmacy market. A first-rate base will be created for a further expansion of its VMS business in Europe, especially as a result of the pioneering role which Germany has taken up in the area of natural medicines and health supplements.

Bayer spent $1bn repurchasing in an emotionally and strategically important deal the rights to its name and trademark in the US and Canada from Sterling via SB. It has since restructured its OTC business. In order to streamline the brand portfolio, parts of the non-pharmacy products, such as Natreen and Delial with sales amounting to DM230m, were sold to the American conglomerate Sara Lee.

The concentration process in the OTC business will continue to develop, particularly in Europe. The recent merger of the two Swiss pharma giants Ciba and Sandoz was a further step in this process. The new company Novartis will become one of the leading participants in the European OTC market. In the next 10 years, the top ten drug companies will command a market share of well over 50 per cent.

As a result, there will be a shake-out of numerous small and mid-sized companies which are especially geared to the national or regional market level. However, even large drug companies are increasingly faced with the problematical question of whether it makes sense, either in terms of strategy or profits, to branch out into the OTC business. Hoechst Marion Roussel has announced that OTC will not be a key area of concentration for them. Zeneca gave up its OTC operations early on.

With its "magic drug" Aspirin – one of the oldest brands in the world – Bayer demonstrates the possibilities that exist in the self-medication market. By means of continuous expansion into new interesting indication areas such as "wellness" (an originally American term covering in the broadest sense good physical and mental health), and heart attack or cancer prophylaxis the brand is kept young.

Moreover, the company has been successful in positioning the brand in the premium segment, despite strong competition. The brand's sales potential has not been exhausted yet and, within the next five years, global sales are expected to rise by approximately 50 per cent to $650m.

In addition to new OTC markets such as eastern Europe or Asia, and new market segments supported by the "wellness" philosophy, new important stimuli for growth are also arising from the steady increase in environmental problems as evidenced by products such as antifungals or antivirals.

The attractiveness of the OTC market with its above-average growth and profit rates will lead to powerful competition. It will be not just small companies finding difficulties in meeting this challenge , but also large companies which lack a global presence and widely-distributed brands or which are unable to orientate their activities towards the needs of consumers.

Friedrich Förster is sector manager Pharma/Healthcare at Roland Berger & Partner, Munich

■ **Europe healthcare reform:** by Eleanor Feldbaum

Drugs bear the brunt

It is odd that governments focus their cost reforms on out-patient expenditures

European health reform efforts continue to focus on pharmaceuticals as governments strive to cut health expenditures.

Government officials believe pharmaceutical manufacturers, distributors and retailers are making excessive profits. Additionally, they believe that citizens are overdependent on and demand too many drugs. In response, physicians over-prescribe costly medications.

The Italian parliament this year passed legislation to reinforce its efforts to cut the costs of subsidised medicines. Reimbursement for each prescribed medication is now to be based on the price of the most economic equivalent drug available. Previously, reimbursement covered the varying prices of drugs, not just the cheapest.

Additionally, the law requires physicians to inform patients that the amount of money they will be reimbursed for their medication will be equivalent to the price of the most economic drug.

The legislation retained provisions to reimburse fully the cost of Class A medications, those for life threatening and chronic illnesses, and to reimburse half of the cost of Class B drugs for lesser ailments. In addition, it retained for 1996 the ceiling of L9,000bn for subsidised medications, although this same ceiling in 1995 was overrun by L700bn.

France also sets caps for pharmaceutical spending through agreements between the industry and the national insurance funds. That cap in 1995 permitted increases in spending for drugs of 3 per cent, not the 8.5 per cent that actually occurred. France, therefore, had an overrun of FFr2.5bn last year.

To cut deficit spending and to erase the deficits in social security spending, the pharmaceutical industry is to pay a special contribution to the government. Although plans have not been finalised, three types of payments are being seriously discussed. First, the tax on advertising is to rise from 9 per cent to 14 per cent and is expected to raise FFr600m.

Second, there is to be payment on turnover growth, with

Continued on Page V

Blockbuster drugs for the year 1994

Brand name	Generic name	Indication	Sales $bn for marketing companies	Size ($bn)	Launch date
Zantac	ranitidine	anti-ulcer, H2 antag.	Glaxo 3.657	3.657	1983-84
Procardia/XL/Adalat	nifedipine	cardiovascular	Pfizer 1.2, Bayer 1.13	2.33	1975-89
Losec/Prilosec	omeprazole	anti-ulcer	Astra 1.25, Merck 0.9, others 0.08	2.233	1989
Epogen/Eprex	EPO	hematology	AMGN 0.75, JNJ 0.69, Kirin/SANK 0.215, CHUG 0.385, B Mann	2.19	1989
Vasotec	enalapril	cardiovascular	Merck 2.14 (Banyu 0.27)	2.14	1986
Humulin/Novolin	insulin (all)	diabetes	Lilly 0.666, Novo 1.032, HOE 0.1, YAM 0.175	1.972	1982-92
Pravochol/Lipost./Mevalotin	pravastatin	lipid lowering	Bristol-Myers Squibb 0.615, Sankyo 1.27	1.915	1989-90
Prozac	fluoxetine	anti-depressant	Lilly 1.665	1.665	1988
Cardizem/CD/SR	diltiazem	cardiovascular	MMD 0.933, TAN 0.37, SYNT 0.18 + WLA 0.078 + RPR 0.128	1.625	1982-92
Capoten	captopril	cardiovascular	Bristol-Myers Squibb 1.46, Sankyo 0.08	1.54	1981
Humatrope/Protropin	growth hormone	dwarfism	GEN 0.225, LLY 0.22, Novo 0.175, Pharmacia 0.33, Serono 0.105, Sumitomo 0.25, Yamanouchi 0.14	1.445	1986-95
Zovirax	acyclovir	herpes	Wellcome 1.36	1.36	1983-85
Cipro	ciprofloxacin	antibiotic	Bayer 1.35	1.35	1987-91
Neupogen	GCSF/GM-CSF	bmt/cancer	AMGN/RCHE 0.826, SANKYO 0.185, CHUG 0.155, RPR 0.03; Immunex 0.046, SNDZ/SCHG 0.06	1.302	1991
Pepcid/Gaster	famotidine	anti-ulcer	Merck 0.8, Yamanouchi 0.485	1.285	1985-86
Voltaren/Emugel	diclofenac	NSAID	Ciba (inc Emugel) 1.2	1.2	1988
Mevacor	lovastatin	lipid lowering	Merck 1.195	1.195	1987
Zocor	simvastatin	lipid lowering	Merck 1.18 (Banyu 0.39)	1.18	1989
Intron/Roferon/Sumiferon	interferon a	cancer	Roche 0.193, Wellc. 0.07, SGP 0.426, Yamaichi 0.071, Takeda 0.089	1.173	1986-88
Omnipaque	iohexol	imaging agents	Hafslund Nycomed 0.228, Daiichi 0.36, Schering 0.075, Sterling 0.49	1.153	1982-87

Source: Lehman Brothers

Blockbuster drugs for 2000

Brand name	Generic name	Indication	Sales $bn for marketing companies	Launch date	1995 sales ($bn)	2000 sales ($bn)
Losec/Prilosec/Antra	omeprazole	anti-ulcer, proton pump inh.	2.0+: ASTRA; 1.0: ASTRA-MERCK	1989	3.78	4.0
Epogen/Eprex/ProCrit/Epogin/Espo	erythropoetin	hematology	1.0+: JNJ, AMGN: 0.5+: CHUG;<0.5: Kirin/Sank, B Mann	1988-91	5.0	3.5
Prozac	fluoxetine	anti-depressant	1.0+:LLY	1988	2.875	3.0
Zocor/Lipovas	simvastatin	lipid lowering	2.0+: MRK	1989	2.315	2.5
Norvasc/Istin	amlodipine	hyperten/angina	1.0+: PFE	1990	1.72	2.0
Vasotec	enalapril	hypertension	1.0+: MRK	1986	2.16	2.0
Zoloft	sertraline	anti-depressant	1.0+: PFE	1991	1.61	2.0
Adalat+SR/Procardia+XL	nifedipine	hypertension	0.5+: BAYER, PFIZER	1986-93	2.0	1.75
Pulmicort Turbuhaler	budesonide	steroid, asthma	0.5+: ASTRA	1982-87	1.45	1.75
Neupogen	GCSF/filgrastim	white blood cell stim	2.0: AMGN/Roche; <0.5: Kirin/Sank, Chugai	1991	1.35	1.65
Cipro	ciprofloxacin	antibiotic	1.0+: BYR	1987	1.45	1.5
Genotropin/Humatrope/Protropin/Norditropin	somatropin,hGH	growth disorders inc adults	<0.5: PHARM, GENE, SERONO, LLY, NOVO, SUMI, YAM	1985	1.5	1.5
Humulin/Novolin	r-insulin	diabetes	0.5+: LLY, NOVO	1985-88	1.78	1.5
Pravacho/Mevalotin/Lipostat	pravastatin	lipid lowering	1.0+: BMY; >0.5 SANKYO	1989-91	1.45	1.5
Premarin/MPA	conj estrogen	osteoporosis	1.0+: AHP	1993	1.425	1.5
Sandimmune/Neoral	cyclosporin	organ transplant	1.0+: SDZ	1983	1.35	1.5
Paxil	paroxetine	anti-depressant	0.5+: SKB; <0.5: NOVO	1991	1.26	1.4
Augmentin	amoxy.+clav.	antibiotic	0.5+: SKB	1984	1.27	1.25
Diflucan	fluconazole	anti-fungal	0.5+: PFE	1988-90	1.13	1.25
Zestril/Prinivil/Longes	lisinopril	hyperten/CHF	c.0.5+: ZEN; <0.5: SHIONOGI	1993+	1.25	1.25

Source: Lehman Brothers

Drugs bear the brunt

Continued from Page IV

the projection of raising FFr990m. Companies that have seen growth of 3 per cent to 6 per cent, will be assigned a special payment of between 12 per cent and 18 per cent of their increase. Those with growth over 6 per cent will pay between 24 per cent and 36 per cent. Third, the industry will be charged between 1.5 per cent and 2 per cent on the total turnover, reduced by the amount spent on research. This charge is expected to raise FFr1bn.

The pharmaceuticals industry in Germany was able to stop the imposition of a positive list, whereby the drugs that are reimbursable by insurance are specified, scheduled for this year. The government, however, remains keen on cutting its annual expenditure on drugs estimated at DM30bn. The official emphasis remains on curtailing physicians from over-prescribing medications.

The new German effort that began the first of this year (although in some states the effort began as earlier in October 1995) involves pharmacists reporting the name and dosages of medicines ordered by each doctor to the statutory insurance funds.

Keep taking the tablets. But who is going to foot the bill? The patient or the government? *Trevor Humphries*

The insurance funds then examine the prescribing pattern of individual doctors, comparing these to physicians in similar specialities. If over-prescribing is detected, the state physicians association is alerted. If the order is over 25 per cent more than that of other doctors in the speciality, the physicians receives a warning. If no corrective action is taken, then the doctor must pay the excess costs.

April 1 1996 is the date set by the Netherlands for official action, if pharmaceuticals prices do not voluntarily fall. The Dutch parliament, concerned over pharmaceuticals spending, has decided that the best way to curtail expenditures is through a drugs price list that is based on the European average price for each medication. The price list is currently being developed for all drugs and will determine the customer's charge for each.

The law, however, is optional in that implementation can take place on April 1, only if the minister of health deems it necessary. Should the pharmaceuticals sector voluntarily reduce prices to a reasonable level, then the law does not have to be instituted.

In 1994, expenditures for pharmaceuticals outside the hospital in the Netherlands reached $3.75bn, or over 10 per cent of the total health budget of $37bn. This represented an annual increase of 9 per cent, as compared to the overall health spending growth of 6 per cent. Drugs bills for two-thirds of the population are paid by national insurance. The other third have their bills paid by private insurance.

April 1 is also the date that the UK National Health Service will increase the amount that patients pay for drugs from £5.25 to £5.50. The increase is expected to bring in around £310m in the 1996-1997 year, according to Mr Gerald Malone, the health minister, although about 85 per cent of the prescriptions filled out are free of charge. Children, pregnant women, the elderly and those with low incomes are exempt from paying for their medications.

The UK also seems satisfied, at present, with its efforts to encourage doctors to prescribe generic medications instead of those with brand names. The increase in drugs costs for the year 1994-1995 slowed to 9.5 per cent, compared to 11.5 per cent the year before. Surveys have shown that general practitioners are prescribing generics 52 per cent of the time.

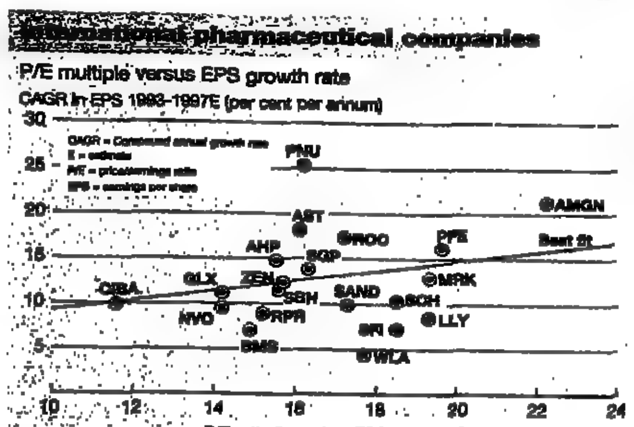
It is odd that European governments focus much of their cost containment reform efforts on curtailing out-patient drug expenditures. The cost of drugs administered in hospitals is not taken into account. In addition, the pharmaceuticals industry employs many people and usually makes an important contribution to the positive side of the balance of trade.

The pharmaceuticals industry claims that a reason for this focus is that the out-patient drugs bill is easily identified in the health budget. Unlike other expenditure lines that combine health service costs, the drugs bill is separate.

The drugs sector also believes that it is easier for government officials to blame large business for runaway prices than it is to curtail health service provisions or to raise taxes or insurance premiums to cover the real costs of healthcare.

Eleanor Feldbaum is co-editor of the Financial Times newsletter International Healthcare News

International pharmaceutical companies



Note: based on closing share prices on 27 February 1996 and consensus EPS estimates. EPS for calendar years. No attempt has been made to adjust EPS for European companies to US GAAP
Source: NatWest and Salomon Brothers

Merchant bankers and stock market analysts use a variety of techniques to predict which companies are likely to get involved in mergers and acquisitions, Daniel Green writes. One method is to compare price-earnings ratios with forecast growth in earnings per share. The idea is to spot both companies that are cheap in p/e ratio terms, and those that appear to be relatively undervalued by investors. This chart, from the start of March, shows Ciba to be relatively cheap and Sandoz facing the prospect of below average growth given its share price. Within a week, their merger was announced.

■ **Case study:** by Victoria Griffiths

The acid heartburn test

The market is open to court cases because clinical data for similar drugs is lacking

With Warner-Lambert poised to launch Zantac over-the-counter at the end of April, the heartburn wars that erupted last summer may soon be heating up again. Marketing for Zantac will be fierce and will pitch the remedy directly against competing non-prescription medicines Pepcid AC by Johnson & Johnson-Merck and Tagamet HB by SmithKline Beecham, according to the Warner-Lambert.

"We will be making comparative claims and plan an aggressive campaign," said Mr Robert Casale, vice president of gastrointestinal marketing for Warner-Lambert.

Comparative claims landed Johnson & Johnson-Merck and SmithKline Beecham in hot legal soup last year. In late August, SmithKline filed a lawsuit, complaining that SmithKline's advertising was misleading. J&J-Merck responded with a countersuit, and the feud ended in October with a federal judge ordering the companies to withdraw some advertisements for the heartburn medicines.

With Zantac about to hit pharmacy shelves, observers wonder if the market could see more court disputes. The over-the-counter market is ripe for these episodes, say some observers, because of the lack of clinical data comparing what many scientists see as very similar drugs.

"When companies apply for approval by the FDA (Food & Drug Administration), they have to prove safety and effectiveness," says Mr Jerome Avorn, assistant professor at Harvard University Medical School. "They don't have to provide data comparing their drug to competitors. Because that sort of information isn't readily available, it's left to be battled out in the courts and the minds of consumers." According to Mr Avorn, all three drugs are substantially similar.

"They all work through the histamine 2 receptor", says Mr Avorn.

The heartburn wars are especially bitter because so much is at stake. Pepcid, Tagamet and Zantac are some of the most successful prescription drugs ever to move over-the-counter. Even prior to the launch of Tagamet and Pepcid on the non-prescription market, sales of heartburn medicines were worth some $1bn a year in the US, according to Mr Stephen Buermann, an analyst at Merrill Lynch.

The legal fight began last August when SmithKline alleged that advertisements exaggerated Pepcid's effectiveness. J&J-Merck said eight out of 10 doctors and pharmacists chose Pepcid over Tagamet. The survey was conducted before Tagamet was introduced. SmithKline also challenged claims that Pepcid worked for eight hours and helped provide heartburn relief all day.

J&J-Merck countersued over SmithKline's claims that Tagamet works faster. The company also protested its rival's assertion that doctors wrote seven times more prescriptions for Tagamet than for Pepcid.

Because guidelines for the marketing of prescription drugs are so strict, companies usually hold off on heavy advertising until products move over-the-counter. Now that the FDA is pushing products more quickly to the non-prescription market, many fear the sort of feud that involved J&J-Merck and SmithKline may be repeated. With Zantac poised to invade a heavily disputed market, the sparks may soon start to fly again.

■ **Switching in Europe:** by Peter Mansell

A stubborn national issue

UK pharmacists may have been over-scrupulous in 'gatekeeping' the new remedies

Switching prescription drugs over the counter may make immediate waves in the US but in Europe, it can be a frustratingly piecemeal way of spinning out a product's lifespan.

Once US switches are through the approval gate, the market is wide open with the chance to double or even triple sales. Europe is more delicate. Not only does willingness to license switches vary greatly from country to country but advertising and marketing conditions have remained stubbornly national, despite the broad swing to harmonisation in drug regulation.

On relatively liberal territory the new wave OTCs are by no means a sure thing. While Americans fill up their shopping baskets with H2-antagonists for heartburn, in the UK – the brands' first large switch market – results have been less than spectacular.

Not even Zantac 75 – marketed in Europe by Warner Wellcome – which has gobbled up twice the market share of Pepcid AC (Johnson & Johnson/MSD) and Tagamet 100 (SmithKline Beecham), has lived up to its formidable reputation. "We still have a long way to go with OTC Zantac," says Mr Godfrey Axten, vice-president, marketing for Warner Wellcome.

Like his competitors, Mr Axten feels UK pharmacists have perhaps been over-scrupulous in "gatekeeping" the new remedies. Yet the profession has also been pilloried for lax supervision of switches.

Some switches – Warner Wellcome's Zovirax, Bayer's Canesten, Pharmacia & Upjohn's Nicorette – have already scored notable successes in Europe. These products carved out a new indication for self-medication rather than offering a different approach to an old problem.

But a number of regulatory authorities encouraged by a hostile medical profession, have resisted the switch phenomenon. Often the difficulties come after registration – loss of reimbursement for the parent drug or restrictions on mass media advertising.

Of the main European markets, only around half allow public advertising of OTC switches with the same name as their prescription forebears; even fewer permit adverts for reimbursable brands.

Maintaining a brand across the prescription/OTC divide means companies can exploit "prescription heritage". However, some European governments, while wise to the economic benefits of self-medication, continue to see common branding as indirect advertising for the prescription business.

To date there has been little hard evidence to the contrary. The European Proprietary Medicines Manufacturers' Association (AESGP) says it now has figures showing that OTC Zovirax, Tagamet, Pepcid and Canesten do not refresh prescription sales. But the problem "won't be solved at European level", warns AESGP director Dr Hubertus Cranz .

The association is also pushing for guidelines that would encourage EU member states to standardise their switch procedures. It argues that the drug classification Directive sets a precedent for reviewing medicines every five years.

Dr Cranz says the European Commission is fully behind switch guidelines but member states want decisions on the legal status of medicines left to national discretion.

The new "mutual recognition" procedure for drug registration in Europe – an object of deep suspicion among most OTC manufacturers – excludes any special provision for switches. Nonetheless, Warner Wellcome has pitched in, filing Zantac 75 for piggy back approval in six markets.

Peter Mansell is Editor of FT OTC Business News

LATIN AMERICAN **FINANCE AND INVESTMENT**

Region delivers a tentative recovery

Enjoy the party but dance near the door, investors are advised. Stephen Fidler reports

Optimism about Latin America's economic resilience is slowly re-emerging after the profound setback dealt to the region's fortunes by Mexico's financial crisis. But until Latin American economies succeed in creating their own pools of savings at home, most will remain all too dependent on the mood swings of the international financial markets.

Deep recessions in Mexico and Argentina in 1995 are widely expected to give way this year to at least moderate growth, while the main economies elsewhere in the region, with the likely exception of Venezuela, should also expand.

Another cause for optimism has been the behaviour of private capital flows, which after collapsing in the immediate aftermath of Mexico's December 1994 devaluation, have recovered rapidly.

The flows have been restored because most of the influences that encouraged them survived the Mexican crisis. These influences have been pushing both portfolio and corporate investors to look further afield for opportunities and also pulling them into the so-called emerging economies.

The "push" factors appear to be cyclical and secular. In the short-term relaxed monetary conditions in the world's leading economies – a consequence of weak growth and low inflation – have continued to encourage investors, particularly those in fixed-income securities, to seek higher returns in the developing world. Longer term, the growth of institutional investors worldwide and their continuing need for portfolio diversification seems to suggest continuing investment in emerging markets.

The "pull" factors include the region's continued adherence to orthodox economics and market oriented policies after the crisis. There were no important U-turns in policy. Rather there was a widespread attempt to intensify efforts at economic reform, for example, by accelerating privatisations.

However, investor perceptions have shifted. There is evidence that investors are being more selective and increasingly differentiating among economies. Since the crisis, interest rate margins for Latin borrowers in the international bond markets have widened and maturities shortened. A greater number of public sector entities are issuing bonds, often using currencies with relatively low sensitivity to risk, such as D-Marks and yen.

A resurgence has taken place in structured finance, in which investors use assured future cash flows as security against a perceived increase in country risk. And international banks have once more played an important role in providing external finance for Latin America, though overwhelmingly as short-term lenders.

The most marked effect of the crisis was on portfolio equity investors: net flows to the region from this source halved last year to about $6.2bn, a quarter of the level in the record year of 1993, according to World Bank figures.

Some analysts expect the total to rise sharply this year. Mr Michael Howell of ING Barings in London forecasts that portfolio equity flows to all emerging markets should more than triple to $50bn this year from $15bn in 1995.

Investors and governments alike have tried to take on board the lessons of Mexico. These suggest they should be wary of high current account deficits and overvalued exchange rates. They emphasise that it is the composition and maturity of a country's debt that matters, not just its size. "Mexico's mistake was that it paid too much attention to the interest cost of financing and not enough to its maturity," said one World Bank official this month.

The Mexican crisis has raised awareness of possible new threats to global financial stability. It has suggested that new measures of economic vulnerability – for example, the ratio of foreign currency reserves to M2 money supply – may be becoming as important as old ones, such as the number of months of imports that are covered by reserves. It has demonstrated the risks of mishandled financial liberalisation and the importance of a strong and closely regulated banking system.

The shakiness of Latin America's financial systems is one of the biggest risks to economic growth. Banking crises in Mexico, Venezuela, Argentina and Brazil have all contributed to a cocktail of economic uncertainty. These problems, say researchers at JP Morgan in New York, "have peaked but are not yet over".

In a research report this month Ms Anne Milne of ING Barings in New York warns holders of bonds issued by Brazilian banks to be careful. Two banks, Banco Nacional and Banco Economico, with more than $600m of eurobonds outstanding between them, have been bailed out by the government in the past few months. Banks have issued almost 75 per cent of the more than $10bn outstanding Brazilian eurobonds. She advises investors to stick to the most conservative issuers.

So the markets have taken these concerns – as well as actual corporate bond defaults such as that by Mexico's Sidek – fairly calmly. But governments must act forcefully to avert future crises, a difficult task when banks are weak.

Banking experts have suggested a series of reforms including: higher capital requirements for banks; bank supervisors with stronger enforcement powers and greater independence from government interference; stringent entry rules for newcomers; much more meticulous inspection of loan portfolios; and stronger limits on lending concentrations.

Ms Ruth de Krivoy, a former president of the Venezuelan central bank, has suggested that a convention whereby loans to governments carry no requirement to set aside capital is inappropriate in Latin America: "When governments face financial difficulties they have strong political incentives to stop paying interest on debt before cutting expenditures," she says.

A further risk lies in the region's continued dependence on external capital. Argentina, Peru and Colombia, among others, are trying to encourage domestic savings by emulating the Chilean private pension fund system. But the benefits will take time to emerge.

While the external financial environment remains as benign as it is now, there should be few problems. Many investors are nonetheless asking themselves what will happen to capital flows to the region when interest rates in the US and the other large economies begin to turn upwards. Mr Howell's advice to emerging market equity investors is: "Enjoy the party, but dance near the door."

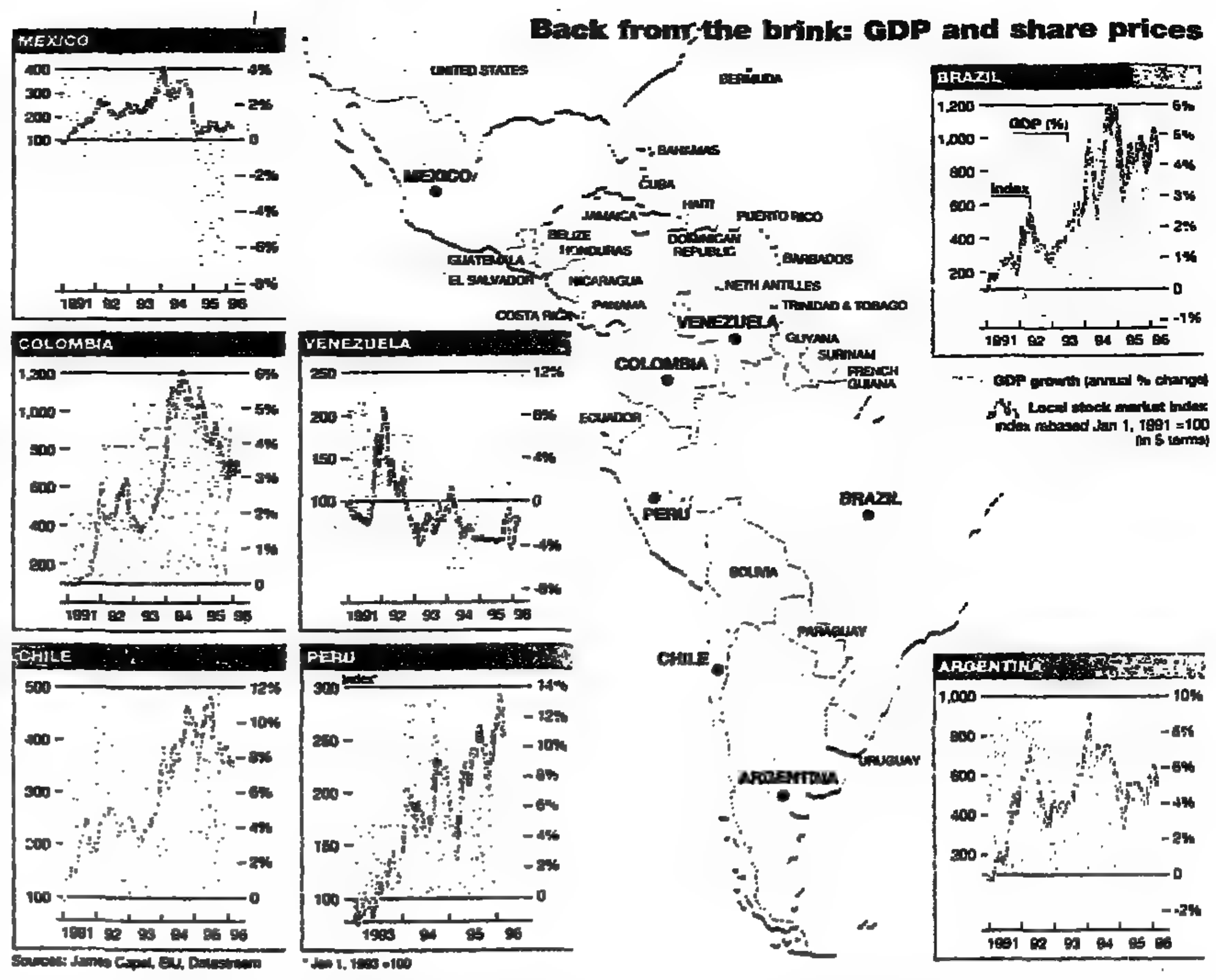
Higher international interest rates would not necessarily be an unalloyed disaster if they reflected growing strength in the industrialised economies – and therefore stronger export markets.

But some economies remain vulnerable to shifts in investor sentiment. Mexico overtook Brazil last year as the region's most indebted country and faces costs of close to $20bn in debt capital repayments in 1997 and in 1998. The almost complete disappearance of its current account deficit, helped by exports that grew by 30 per cent last year, should take off some pressure. Brazil's large amount of short-term debt overseas concerns some investors.

The most important set of risks are social and political. Prospects for growth have been damaged by the Mexican crisis and, without growth, social pressures intensify. The task of dealing with the region's poverty and social inequalities has had to take second place to financial crisis management.

In many economies therefore questions remain about the sustainability and resilience of the economic reform process in the face of social and political pressure on government. These questions will not be answered any time soon.

Back from the brink: GDP and share prices



Sources: James Capel, EIU, Datastream

* Jan 1, 1993 =100

IN THIS SURVEY

Editorial production: Jonathan Guthrie
Graphics: Robert Hutchison, Steven Bernard
Statistics: Asifa Juma

This survey on finance and investment in Latin America is the first in a series that will also cover East Europe (April 15), Asia (April 29), Africa (May 13), and the Middle East (autumn). For synopses and advertising details call +44(0) 171 873 4167 or fax +44(0) 171 873 3078

■ **Equities:** by Richard Lapper

Big issues are on their way

Issuers are likely to exploit improved market conditions by selling equity this year

After a gloomy 1995 Latin American equities are slowly regaining favour with international investors. Despite current uncertainty in global debt and equity markets, portfolio flows into the region's secondary markets have risen over the past few weeks. A number of sizeable primary and international public issues are in the pipeline. According to ING Barings flows of equity capital to Latin America which fell to barely $2bn in 1995, compared with $20bn in 1993 and $15bn in 1994, are expected to reach $10bn this year.

Mexico's peso crisis in December 1994 triggered an extensive sell-off throughout Latin American markets in the first half of 1995, depressing stock market returns. US mutual fund investors were particularly jumpy, with redemptions rising sharply in the first few months of the year. Overall Latin American equity markets fell by 28.1 per cent in dollar terms in the first three months, with Mexico (down 43.4 per cent) and Brazil (down 35.4 per cent) leading the plunge.

Later in the year local circumstances hit a number of markets. For example, the Chilean market was depressed by an unexpected rise in interest rates, while devaluation triggered a 41.4 per cent fall in Venezuela in the fourth quarter. As a result, despite a gradual recovery during the second half of 1995 and positive performance over the year as a whole by some countries (Argentina's market showed returns of 12.7 per cent), Latin America fell by 18 per cent in dollar terms.

This poor performance contributed to the slow pace of capital raising activity. Equity issuance fell sharply in 1995 after rising sharply in 1993, when total issuance reached $6bn, and 1994 when it totalled $4.3bn, partly on the back of big Mexican and Argentine privatisation programmes. Only a handful of Latin American companies came to the market, all of them raising relatively small amounts of capital.

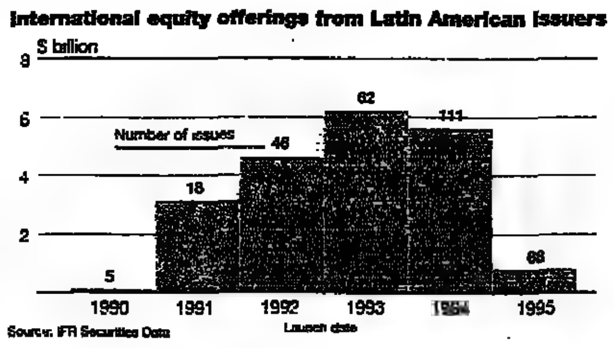
Almost all the issuers occupied well-defined market niches. Three of the issuers, for example, were supermarkets. Brazil's Makro Atacadista and Companhia Brasileira de Distribucao, which owns the Pao de Acucar chain, raised $58.9m and $37.4m respectively through offerings of global depositary receipts. In November Santa Isabela, the Chilean chain which also operates in Peru, raised some $75m in an American depositary receipt (ADR) issue. Chile's Banco de Edwards and Colombia's Banco Industrial Colombiano raised $78.2m and $48.9m respectively.

Three companies involved in either heavy industry and mining brought offerings. Altos Hornos, the Mexican steel producer, raised some $66.9m through a private placement of shares in July last year; Brazil's Aracruz Celulosa sold $162m of ADRs in October; and Chile's Sociedad Quimica Minera de Chile, which manufactures fertiliser and iodine, placed ADRs worth $70.7m in November.

Sentiment is now improving. The fall in bond yields towards the end of 1995 and indications that the US equity market may

Supermarkets raised cash in 1995

International equity offerings from Latin American issuers



Source: IFR Securities Data

be beginning to ease, coupled with a rise in raw material prices and enthusiasm for Latin American mining stocks, helped a number of markets at the turn of the year. According to ING Barings monthly, returns rose successively in November (0.9 per cent), December (2.2 per cent) and January (9.9 per cent), although the markets lost some ground in February.

Analysts are confident that Latin America will provide investors with positive returns

> Brazil and Peru are planning to launch their biggest privatisations ever this year

this year. Mr Nigel Rendell, Latin American equity strategist with James Capel, is predicting a 21 per cent rise in the Latin American IFC index over the course of the year which he says will "virtually wipe out the decline of the last two years," adding, "A lot of people have been trying to get in from Europe and the US because Latin American multiples have been pretty undemanding."

Only two new two issues came to the market in the first two months of the year – Chile's Enersis, an electricity generator and distributor which has recently expanded into Argentina, issued ADRs worth $110.9m in January. The next month Corporacion Industrial San Luis, a Mexican mining company which also makes vehicle suspension and brake components, raised $45m. A string of other companies, including Argentina's Disco and Grupo Quilmes, are also considering selling depositary receipts.

Two privatisation issues – the biggest ever for Brazil and Peru – are planned for later this year. The Peruvian government hopes to raise some $1.5bn by selling a 29 per cent stake in telephone utility Telefonica. The sale of some of the Brazilian government's stake in Companhia Vale do Rio Doce (CVRD), the world's largest iron ore miner, is expected to raise more than $1bn. Eventually the government plans to unload 51 per cent of CVRD, which is valued at about $9bn, on the markets.

Judging by the fees charged to place the shares with international investors, bankers are confident about potential demand from European and US investors. The winning teams for both CVRD and Telefonica have charged fees of less than 2.5 per cent, compared to the 3 to 4 per cent typically paid by issuers from the region.

Late last year Brazil awarded a contract to sell shares in CVRD to a consortium including Merrill Lynch, Rothschild, Bradesco, Banco Graphus, KPMG and Engevix, which offered to do the work for a commission worth a little under 2 per cent.

In January the Peruvian authorities announced the appointment of JP Morgan, Merrill Lynch and Banco de Credito, a local bank, to co-ordinate global sales of its 29 per cent stake in Telefonica, the country's telecommunications utility, for a fee of 2.42 per cent of the total raised. The flotation, which is expected to take place before mid-year, should raise at least $1.25bn from international investors, making it one of the largest deals to come out of the region since the flotation of YPF, the Argentine oil company in 1993. Banco de Credito will also supervise sales of up to $250m of shares to institutional and retail investors in the local market.

■ **Bonds:** by Lisa Bransten

Forecasts of doom fall flat

Borrowers have the chance to build on the solid foundations laid last year

Doomsayers who predicted last year that Latin American countries would be locked out of international capital markets for months in the wake of Mexico's bungled peso devaluation could not have been more wrong.

The year got off to a rocky start, after the late-December peso devaluation. Debt issuance by all emerging market borrowers tumbled to just $600m in the first quarter compared with $9.7bn in the first quarter of 1994, according to Salomon Brothers research.

By the end of the year, however, total debt issuance from Latin America reached $21.9bn, exceeding 1994 borrowing by $4.7bn. Observers generally expect the total for this year to be much healthier as many big issuers put their economic problems behind them.

Earlier this year the governments of Mexico and Argentina both launched $1bn five-year global issues. The offerings were oversubscribed by investors hungry for bonds carrying yields of 400 basis points over US Treasury bonds.

The issuers that came out of forced hibernation in the second half of last year awoke to an entirely new environment for borrowing where maturities were shorter, yields were higher and investors were increasingly demanding.

Just before the peso crisis the average yield on debt from the big Latin American issuers was around 350 basis points over US Treasury bonds. Last year that spread soared to about 530 basis points over Treasuries before returning to just over 400 basis points in the middle of last month.

Meanwhile the average maturity of Latin debt fell from 5-10 years in 1994 to 1-5 years last year.

Even with last year's sharp increase in financing costs the critical need for foreign reserves led Mexico and Argentina to complete about $17bn worth in international

Former US treasury secretary Nicholas Brady, architect of debt restructuring Terry Kirk

issues, more than double the amount of corporate issuance transacted domestically.

As recession spilled over from Mexico and into Argentina investors became wary of lending to companies operating in such difficult economic environments, so concerns from those countries were forced to guarantee their bonds with future cash flows.

Late last month Telmex, Mexico's telephone monopoly, completed a $280m securitised deal based on dollar payments that subscribers owe the company for calls between Mexico and the US. Mexico's leading bank, Banamex, and Argentina's oil monopoly, YPF, also made debt offerings backed by future flows of funds.

Mr Nasser Malik, vice president in the cross-border finance group at Citibank, estimates that the value of the securitisation market in Latin America grew to $3.1bn in 1995 from $625m in 1994.

The securitisations are generally designed to reduce sovereign risk and achieve an investment grade rating even if the foreign currency debt of the country in which the issuer is based does not carry a rating this high. The astronomical legal costs associated with such deals are compensated for by longer maturities and lower interest rates.

The Telmex deal was rated two notches above investment grade by Moody's Investor Services, despite Mexico's sub-investment grade rating. It carried a yield of 62.5 basis points over Libor, a considerable saving over the 325 basis point spread over Libor on a loan issued last year.

Brazil was one country whose private sector was able to tap the international markets without securitising its debt. Merrill Lynch estimates that the Brazilian private sector issued $5bn in bonds last year, about $4bn of which came from the banking sector.

Ms Joyce Chang, emerging markets fixed-income strategist at Merrill Lynch, says some of that Brazilian bank debt could be risky amid the revelations this month of $5bn in questionable loans at Brazil's Banco Nacional.

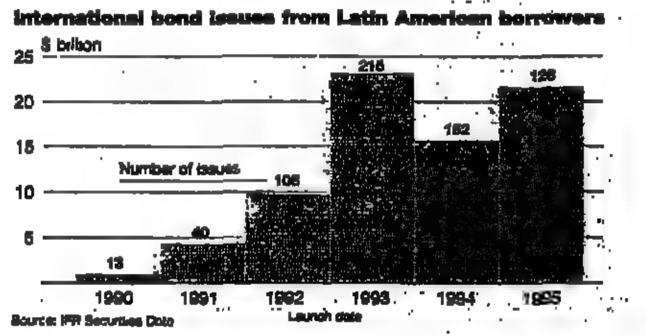
"Some of the new questions about transparency in the sector should raise some flags," she says. "Some of the difficulties have come to light a long time after the markets should have known."

The region's most liquid securities are Brady bonds – securities created from restructured loans to foreign commercial banks and named after former treasury secretary Nicholas Brady. These also had a difficult start to the year. But they recovered along with the rest of the market in the second half of 1995. Total returns for the whole year from JP Morgan's Latin Brady index were nearly 34 per cent.

This year could be another strong one for Brady bonds. The most important factor will be out of the control of Latin finance ministers: the behaviour of the US Federal Reserve. Because they are more liquid than other Latin issues, Bradies tend to be the region's most volatile bonds. They have suffered this year as US Treasury prices backed up on fears that the Fed is unlikely to cut interest rates in the near term.

Their future prospects will depend as much as anything on the state of the US economy and the course of monetary policy there.

International bond issues from Latin American borrowers



Source: IFR Securities Data

Banking by Stephen Fidler

Weak supervision sowed seeds of disaster

Lax controls and political patronage have sapped the vitality of the region's banks

One important consequence of Mexico's financial crisis and the subsequent recession has been to concentrate attention on the weaknesses of many of Latin America's banking systems.

This is not a new issue, but one that periodically occupies policymakers' attention. Unfortunately it seems to take a crisis to make this happen. In the early 1980s, for example, crises in the Chilean and Colombian banking systems led to a strengthening of the supervisory and regulatory systems that continue to hold both countries in good stead.

By contrast weak supervisory regimes have contributed to banking crises in a succession of the larger economies, starting with Venezuela but also enveloping Mexico, Brazil and Argentina.

This has important consequences for the real economy. To preserve liquidity banks often become very cautious about lending, which in turn tends to accentuate any recession. The resolution of banking crises also usually entails significant fiscal costs, which may conflict with anti-inflation policy or with other spending objectives.

The opening that has taken place of most Latin American countries' capital accounts has also made the health of the region's banking systems of greater importance to international finance.

"The banking system becomes more important as a country liberalises. We should be looking much more at the balance sheets of the banks," Mr Amar Bhattacharya, economist at the World Bank, told a meeting in London this month of the Centre for the Study of Financial Innovation.

The Mexican government now says that the post-privatisation supervision of its banking system was "outmoded and inadequate" and that it has taken steps to improve and modernise supervision efforts. President Ernesto Zedillo told the Financial Times in January: "If they'd done that three years ago, we'd have quite a different story to tell regarding the banking system."

Most private sector analyses suggest the worst of the banking crises in each of the main economies is over, but that problems will go on emerging.

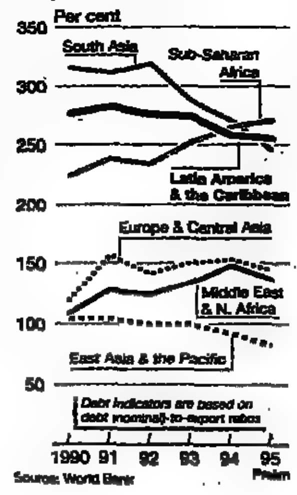
They estimate that the cost of the Mexican crisis is likely to exceed 10 per cent of gross domestic product. If so, it would compare with Venezuela's in terms of the burden placed on the economy, though Mexico's has been handled with more assurance.

The government's estimate of 5.7 per cent of GDP in net present value terms "rests on an unrealistically low assessment of the magnitude of non-performing loans", says Mr Alfredo Thorne of JP Morgan in Mexico City. Less optimistic forecasts raise the fiscal cost to between 6.8 per cent and 10 per cent, he adds.

Mr José García-Cantera of Salomon Brothers in New York estimates the crisis will cost 12.5 per cent of GDP: some $30bn over 10 years. This compares to revenues of $12.4bn from the privatisation of the system in 1991-1992.

In Argentina, where bank deposits have regained their best 1994 levels, the cost of its crisis looks likely to be significantly lower. "The total cost of the banking bailout looks to have come close to $2.5bn in 1995, or about 0.9 per cent of GDP," says Mr Alfonso Prat-Gay of JP Morgan in New York, and some of this amount may be recovered.

Regional debt stocks



Source: World Bank

However the process of consolidation in that overbanked country will continue. "We're going to see concentration in the Argentine banking system," says Mr García-Cantera. "Whereas now there are 155 to 160 banks, we believe that over 100 banks will disappear over the next three to five years. That does not imply any systemic risk whatsoever."

In Brazil, where three of the 10 largest banks have failed in the last 15 months, an equivalent system-wide crisis has not emerged. But Brazil's banking problems are, at root, two-fold.

The first problem is that the adjustment of the banking system from hyperinflation to a stable inflation environment has placed strains on banks which used to make a majority of earnings from inflation.

The second concerns the widespread abuse of state-owned banks by politicians, which have left them with large portfolios of non-performing loans and requiring constant injections of government cash to stay afloat.

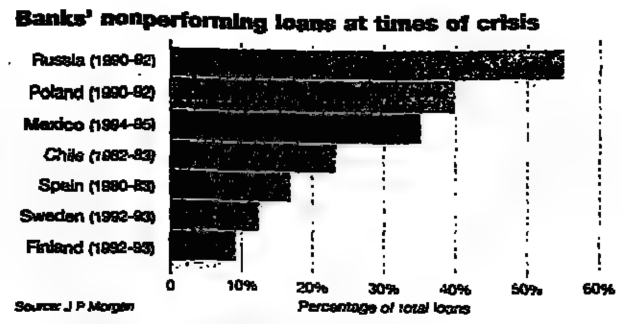
Recent developments at Banesp, the Sao-Paulo state bank, in which the central bank suffered a defeat at the hands of the state governor, suggests obstacles remain to resolving this issue. Mr García-Cantera identified Banesp, the smaller Rio state bank Banerj, and the giant Banco do Brasil as important examples of the problem.

Much remains to be done to improve Brazilian bank supervision too, according to Mr Paul Taylor, a former Federal Reserve official who is now managing director of the credit rating company Duff & Phelps. "I don't think Brazil recognises the problems it has," he says.

Brazil's finance minister Mr Pedro Malan says the government is taking steps to tighten the monitoring of banks. Other countries, such as Argentina, have also made advances in banking supervision over the last two years.

Mr Ricardo Hausmann, the chief economist of the InterAmerican Development Bank, and his colleagues have argued that the 8 per cent capital ratio suggested by the Basle capital adequacy rules is too low for the volatile economies of Latin America. The Basle ratios were never designed in any case to be strict guidelines, but rather as minimum requirements for more developed financial systems such as Japan.

Banks' nonperforming loans at times of crisis



Source: J P Morgan

Tougher accounting standards – as are now being introduced in Mexico – and clearer and more enforceable rules on bankruptcy and on asset seizure would benefit most countries.

The Mexican case is instructive. In retrospect, the attempt to maximise revenues from privatisation was a profound mistake. Not enough care was taken with due diligence assessments of prospective bank owners and how they were financing their purchases. Furthermore foreign banks should probably have been allowed to bid for Mexican banks – as they are now doing – as this would have strengthened competition and provided stability in the event of a crisis.

More care should have been taken to limit the extraordinary growth in credit that took place after privatisation, the sorry harvest for which is now being reaped in a mass of non-performing loans. In 1988 the total credit of the banking system to the private sector was equivalent to 13-14 per cent. By 1994 this had grown to 36 per cent.

Mexico's decision to abandon reserve requirements so early into the liberalisation of the financial sector also looks mistaken. High reserve requirements in Argentina were criticised, but appear to have played an important role in providing a cushion against the financial shocks of 1995.

Foreign direct investment: by Stephen Fidler

Trends combine to lift the region's fortunes

Markets escaped government tinkering in time to attract foreign investors' interest

Digging in: mining has opened up to foreign capital — Ashley Ashwood

The marked volatility shown by portfolio equity and debt flows since the crisis in Mexico has emphasised the importance of encouraging domestic savings and developing foreign direct investment (FDI) in Latin America.

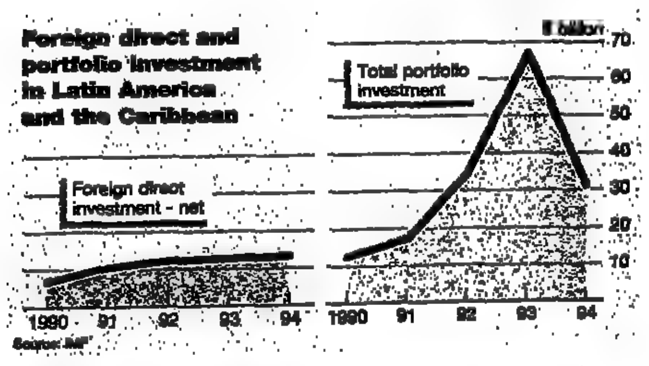
Direct investors – in plant and machinery in existing or greenfield companies – are assumed to make their decisions from a longer term perspective and to be less swayed by day-to-day concerns than investors in bonds and shares.

As a result conventional government wisdom about the desirability of FDI has undergone a complete transformation in the last few decades. Nationalist worries about the dominance of foreign, particularly US, companies have given way in most countries to a more positive view of multinationals as an important source not only of capital but also of new technology and management techniques.

To some extent this demand for FDI is finding supply, although the flows are concentrated in the larger economies and many countries in the region remain starved of such capital.

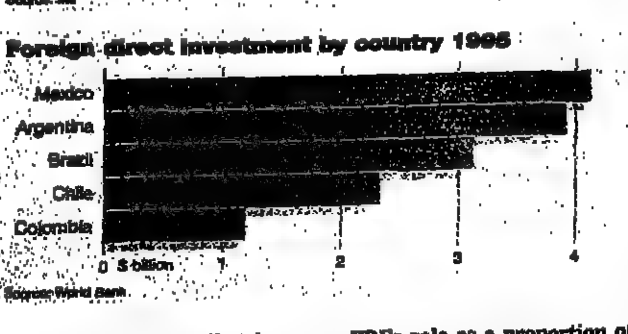
Like the growing volumes of portfolio investment that have been moving into developing countries, the trend is being driven by considerations that are pushing investors to look overseas, and factors that are drawing them to Latin America and other developing countries.

Foreign direct and portfolio investment in Latin America and the Caribbean



Source: IMF

Foreign direct investment by country 1995



Source: World Bank

Developments encouraging companies to expand abroad to achieve higher productivity include the globalisation of markets, new technology and changing patterns of production. The slow growth of most industrialised economies during the 1990s has also reinforced the perception that these are maturing markets, and that growth will be more rapid in the so-called emerging markets.

An important factor attracting foreign capital to Latin America, apart from privatisations, is the adoption of many governments of more market-oriented economic policies and less arbitrary macroeconomic management policies. These are increasing investor comfort and reducing perceptions of risk.

Improved intellectual property protection – though still unsatisfactory from the perspective of some foreign investors – has been helpful. Growth in Latin American economies, coupled with regional integration efforts, such as the North American Free Trade Agreement (Nafta) or the Mercosur customs union between five South American nations, are in effect increasing the size of "domestic" markets.

According to the International Finance Corporation, a wing of the World Bank, market size is a critical determinant in international investors' decision-making.

FDI's role as a proportion of Latin America's gross domestic product has been growing gradually. According to the World Bank, net FDI flows accounted for 0.7 per cent of gross regional product in 1970, about 0.8 per cent in 1980 and 0.7 per cent again in 1990, whereas in most years of the 1990s it has been around 1.2 per cent or higher.

Last year the bank's preliminary estimates suggest total net flows declined – and Latin America's share of developing country FDI fell more sharply – in the aftermath of the Mexican crisis. According to the estimates net flows of foreign direct investment to the region fell last year to $17.8bn from $20.8bn the year before.

This decline was more than accounted for by Mexico where investment from foreign sources dropped to slightly more than $4bn, just over half its 1994 level, although the peso devaluation helped to increase export-oriented FDI levels in Mexico.

By contrast, investment in Chile and Brazil grew, while that targeted at Argentina, which fell to a five-year low in 1994 as a round of privatisations ended, recovered to nearly $4bn.

That gives Latin America a share of around 7.5 per cent of all global FDI in 1995, compared with some 22.5 per cent for the developing countries of east Asia and the Pacific.

However the figures for Asia are heavily influenced by China, which itself accounted for 18 per cent of all FDI in 1995, according to the World Bank estimates. Its share may be exaggerated by close to 40 per cent because of factors including "roundtripping" by Chinese investors through Hong Kong to take advantage of tax concessions.

The nature of FDI in the two regions appears to be different too. In Latin America, up to now, a greater share of FDI has come from foreign acquisition of existing assets, for example through privatisations, while there has been more greenfield investment in Asia. Between 1988 and 1994, foreign direct investment through privatisation in Latin America amounted to a healthy $14bn.

Partly due to the type of assets that have been privatised, more FDI in Latin America has gone into infrastructural areas of the region's economies, such as telephones and energy, and less into manufacturing industries than in Asia.

The nature of this investment raises a number of questions for Latin America. One is what will happen to FDI once privatisation ceases. Up to now, when one country has slackened the pace, another has tended to accelerate, and while in Brazil scope for further privatisation is large, this source of FDI will eventually dwindle.

The rise noted by the World Bank in export-oriented FDI in Mexico following the peso devaluation may suggest that direct investors have been deterred from investment in some Latin American countries by long-standing overvaluation of exchange rates. However the opening up across the region of mining to foreign investors – a sector in which Latin America's comparative advantage is strong – seems likely to be an important source of future foreign exchange.

One other important trend is the growing amount of FDI taking place within the region. Brazil, along with South Korea and China, is one of the top three developing countries in terms of outward FDI, while Chile's FDI outflow has risen rapidly, amounting to $925m in 1994.

Infrastructural investment: by Stephen Fidler

Private cash is particular

Some projects are more attractive to private sector partners than others

Latin America's infrastructure deficit is readily apparent to the visitor to the region in its overcrowded roads, power blackouts, poor telephones and ageing and inadequate water and sewerage systems. Mr Martin Chrisney of the InterAmerican Development Bank says: "For every dollar of infrastructure stock per person in the US, there are 13 cents in Latin America and the Caribbean."

Losses of electricity in the region through theft and technical factors account for 18 per cent of total output. Water losses are about one-third of output against 10 per cent in industrialised countries.

Mr Chrisney estimates the region's stock of infrastructure is worth $410bn, about 35 per cent of regional gross domestic product. Assuming economic growth of 3.5-5 per cent a year over the next decade, he calculates new infrastructure and maintenance spending in the region at between $40bn and $50bn a year.

The inadequacy of infrastructure is partly the result of pressure on public sector finances that intensified with the debt crisis of the 1980s. As in most parts of the world, its provision has for the most part been in state hands. As governments sought to resolve the tension between budget stringency and the need to finance infrastructure, they have increasingly turned to the private sector for help.

At the same time improved economic policy management and market oriented economic policies have meant the region is appealing once more to providers of private finance.

Given the conjunction of these factors, Mr Chrisney estimates the private sector can provide $10bn to $12.5bn a year over the next decade, 25 per cent of required investment.

"Of this amount," he told a conference last year, "debt is estimated at $7.5bn to $9.4bn based on a debt-to-equity ratio of three-to-one for most projects." Recent experience indicates about $1.9bn of external debt financing has been made available annually, which means, he said, "there is a sizeable gap to be filled".

"The fundamental constraint is not equity but long term debt," says Mr Moeen Qureshi, a former World Bank senior vice president and prime minister of Pakistan. Mr Qureshi's Emerging Markets Corporation is putting together a Latin America infrastructure fund with a target size of $1bn.

The Latin American Infrastructure Fund has the backing of two US financial heavyweights, AIG and GE Capital, which will commit $150m each. It emulates an Asian Infrastructure Fund of $1.08bn which is already operating.

The difference in approach between the two funds is instructive, indicating that providers of debt continue to see higher risks in Latin America than they do in Asia. The Latin American fund will have a non-exclusive arrangement to co-operate with the IADB to provide extra comfort to lenders, as well as an alliance with the IADB's private sector arm, the IIC, and close relations with OPIC of the US to provide further guarantees. Arrangements such as these were not necessary with the Asian fund.

Mr Qureshi says the main challenge is not just to secure finance from construction companies involved in the building of projects but "to attract long term investors, such as pension funds and insurance companies, into infrastructure finance".

Nonetheless there is a modestly-growing appetite for providing project debt among banks.

ABN Amro of the Netherlands is an example. It has been prominent in providing project finance for mining projects, such as Chile's Al Abra copper mining project, and the $2bn Ocensa pipeline project from Colombia's two big new oil fields to the Caribbean port of Covenas. It is interested in mining, oil and gas, power and telecommunications projects. But, says Mr Floris Eckers, the regional manager for Latin America: "We have always been happy to avoid toll-road construction finance, and will continue to be happy to avoid it in the future."

A number of projects present difficulties as targets for private sector finance. Toll roads, for example, often have "free" alternatives for road users – as was the case in Mexico. Water and sewerage systems are difficult because services with a multitude of users face greater uncertainty over future payments streams.

In these areas, as in others, a critical role will continue to be played by multilateral financial institutions, including the World Bank and International Finance Corporation (IFC), the IADB and IIC, and the Andean Development Fund, which has been breaking new ground in terms of financing structures.

The IFC, for example, played an important part in the bold handover of the Argentine capital's water and sewerage services to a private sector consortium led by Lyonnaise des Eaux of France and including Britain's Anglian Water, at the start of 1993.

A French company is pumping $4bn into water supply in Buenos Aires

Since it took over, the consortium has cut water bills for the 9m people of Buenos Aires dramatically, averted water shortages for the first time in 15 years, cut pollution discharges into the River Plate and increased access to potable water and sewerage.

Boldness can pay. Mexico City's more tentative attempts to use private sector water companies on a piecemeal basis has been hampered by the lack of public finance. Lyonnaise des Eaux is active in both cities and so has a basis for comparison. Mr Jean-François Druz, Lyonnaise's representative in Mexico, says his company would much rather have gone to work in Mexico City with a comprehensive mandate to manage the entire water system. He adds "We have no investment commitments in Mexico, whereas in Buenos Aires, where we were awarded a 30-year concession to run the water system, we are investing $4bn to improve services."

Privatisations: by Richard Lapper

The pace will start to slow

Political opposition and a lack of easy sell-off targets will cut the rate of disposals

Privatisation is still high on the political agenda in Latin America after a flood of sales in the early 1990s, but the pace is beginning to slow down. Opposition from nationalists and trades unions is rearing its head in a number of countries. The acute fiscal pressures which have pushed many governments to sell off their assets quickly in the past are beginning to ease. And in the countries where privatisation has been most popular – such as Chile and Argentina – many of the most obvious and easiest sell-offs have been completed.

Basic industries have been spun off, leaving more complex areas like power, water supply, roads and airports still to be tackled. "We are moving into a more challenging phase where the privatisations are in the infrastructure sector and where the issues are more complex," explains Mr Vivek Talvadkar, division manager of corporate finance services at the International Finance Corporation in Washington.

On the surface, recent political developments should augur well for more disposals. Last year, two of the region's most enthusiastic privatisers – President Carlos Menem of Argentina and President Alberto Fujimori of Peru – won landslide re-election victories.

Both countries pressed ahead with sell-off plans. During the fourth quarter Argentina produced significant deals, worth $1.3bn. Proceeds included $358m from a 51 per cent stake in Petroquimica Bahia Blanca, sold to a consortium led by Dow Chemical of the US, and $390m from a shareholding in Edesur, the electricity distributor. During the same period the Peruvian government earned $29m from the privatisation of 19 hotels, $256m from shares in Banco Continental and $524m from the sale of part of Edegel, the electricity generator. The disposal of shares in the cement company Cementos Norte Pacasmayo included a programme to tap demand from smaller retail investors, tempted to buy by a price discount and cheap loan finance.

Elsewhere, highlights included some $739m of sales through Bolivia's capitalisation programme. Capitalisation is Bolivia's home-grown alternative to privatisation. Instead of straight sell-offs, investors inject fresh capital in return for 50 per cent controlling stakes in the companies, and management control. The remaining 50 per cent are to be distributed among all adult Bolivians through a private pension fund system.

Even so overall activity showed a significant decline last year, with Mexico completely absent from the scene as a result of the devaluation of December 1994 and subsequent economic difficulties. Proceeds from the continent as a whole fell to $3.6bn, compared with $6.3bn in 1994, $7.4bn in 1993 and more than $15bn in both 1991 and 1992, according to Privatisation International, a specialist publication.

This year activity should pick up, judging by the plans that have already been announced. Argentina intends to raise $2.3bn, with the sale of its hydroelectric and nuclear electricity generating plants accounting for a big chunk of that total. Peru also has an ambitious schedule, that includes the flotation of its remaining 29 per cent holding in Telefonica, the telecommunications company in which Spain's Telefonica already holds a 35 per cent stake. The deal, which is scheduled for launch before the end of June, aims to raise some $1.5bn, including at least $1.25bn from international investors, and will be one of Latin America's biggest capital raising exercises on international equity markets since Argentina raised some $3bn through its sale of Yacimientos Petroliferos Fiscales (YPF) in 1993.

Brazil, where activity was relatively modest last year, plans to sell some electricity distribution companies and banks. It is also looking to unload a big stake in its giant iron ore mining concern, Companhia Vale do Rio Doce (CVRD). Mexico's programme should revive with sales of ports, railways, electricity and petrochemical plants yielding between $1bn and $2bn.

There are already signs that some of these plans could be delayed. This is partly because political opposition to privatisation is rising. Peru's plans to sell stakes in Petroperu, the state oil concern, have provoked strike actions in the Talara oil producing region. In Mexico there is trade union opposition to the sale of electricity and petrochemical plants. In Argentina plans to sell the Yacreta hydroelectric facility is generating opposition in the congress. Opposition deputies argue that public investments in the plant are now bearing fruit in the form of cheap electricity and that the sale will lead to increased power prices.

In Brazil critics of the privatisation of CVRD could try to block its sale on the grounds that the valuation methods could understate the company's worth. They are also fearful that the company's disposal will reduce national funds available for health, education, the environment and infrastructure, since the company is currently obliged to spend at least 8 per cent of its profits on social projects in the north and north-east of the country.

The ease with which telephone utilities could be privatised made them the subjects of many early sell-offs

Bolivians will eventually benefit from a private pension system

In addition governments are under less pressure to sell off assets to meet fiscal targets than they were at the beginning of the decade. Fiscal deficits have declined. Argentina's public accounts are in surplus, for example.

"In the early years many governments were fiscally handcuffed. They needed to get things off their books and raise revenues," says Mr Talvadkar.

Many of the privatisations now being undertaken are by their very nature subject to delays and longer timetables. The governments most adept at privatisation have already disposed of the businesses that were easy to sell. They are now confronting the more complex challenges arising from the sale of infrastructure such as power, surface transport, roads, ports, and water supply. In many areas a whole new legal framework is needed.

In much of Latin America energy and water tariffs affect much broader groups of the population and are intrinsically far more sensitive than telephone rates. The economic pay-off for investors in telecommunications, the initial target of many of the privatisers, is generally achievable in a much shorter time frame than in the power industry, adding to the difficulties. "The overall point," says Mr Talvadkar "is that these are the kind of deals which you cannot turn round quickly."

Only Zedillo optimistic

Weak banks, big debts and low wages are checking recovery, reports Leslie Crawford

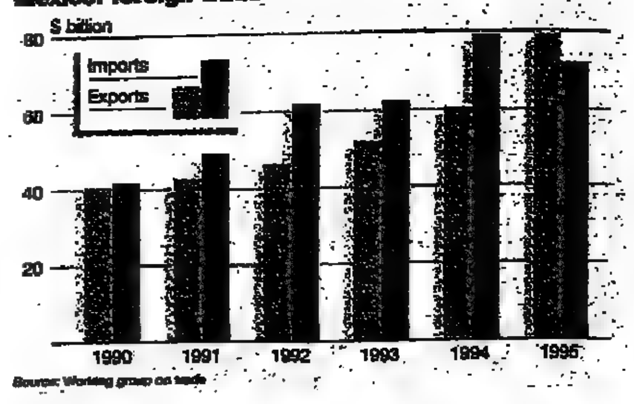
At the beginning of 1996 President Ernesto Zedillo officially declared Mexico's financial crisis to be over. The government had honoured all its foreign debt obligations, the severe recession of 1995 had bottomed out and, he predicted, the economy was poised to resume growth.

Mr Zedillo's optimism is not shared by economists, bankers or business leaders. Few believe the economy will achieve even the modest 3 per cent growth rate forecast by the government this year. Three main obstacles stand in the way of a sustained economic recovery: the collapse in real wages, the heavy burden of corporate debts and a banking sector which is too weak to resume lending to the private sector and thus act as a catalyst for growth.

The forced adjustment to the sudden loss of foreign capital flows in 1995 was achieved at the cost of the worst recession in 60 years. The economy contracted by 6.9 per cent as the government syphoned off domestic resources to repay $41bn of foreign debt and close a current account deficit which reached $29.4bn, or 8 per cent of gross domestic product, in 1994. Only the strong performance of exports – up 31 per cent – prevented a steeper drop in GDP. Economists at the consultancy GEA in Mexico City estimate the internal economy contracted by 15.6 per cent in 1995, with investment falling by nearly 30 per cent.

Most economists agree that what little growth Mexico is likely to see in 1996 will come from the export sector, which accounts for more than 25 per cent of GDP and is forecast to grow by another 13 per cent this year.

The internal economy will remain in the doldrums because of high real interest rates, the scarcity of credit and the poverty of Mexicans. Family incomes fell by more than 10 per cent last year, and are likely to drop by a further 10-15 per cent in 1996 as the government imposes wage restraint with the aim of curtailing inflation.



Source: Working group on trade

"The savage fall in real wages is not consistent with a solid economic recovery," says Mr Rogelio Ramirez De la O, an economist with Ecanal consultants. Shrinking disposable incomes will continue to depress domestic consumption and without a recovery in sales the problems of Mexico's heavily-indebted corporate sector are likely to worsen.

Falling real wages also worry economists because of

the attendant risk of greater social unrest. "The economy remains vulnerable to political shocks," says Mr Ramirez. The exchange rate, now in free float, is particularly sensitive to sudden changes in investor sentiment. Bumpy financial markets would derail central bank plans to lower inflation to 20.5 per cent in 1996 from 52 per cent last year.

Foreign investors are worried about how the ruling Institutional Revolutionary Party (PRI) will fare in congressional elections in mid-1997. Unless the government can engineer a fast recovery it is likely to do badly.

President Zedillo's government is therefore under intense pressure to jump-start the economy by coming to the rescue of ailing corporations.

The magnitude of the problem is difficult to quantify because the real level of bad debts and de facto corporate defaults have not been fully acknowledged by Mexican banks or the government. Mr José Madariaga, president of the Mexican Bankers Association, estimates past-due loans rose to about $18bn at the end of December, or 18.3 per cent of the banking system's total loans, compared with 7.3 per cent a year before.

Banking analysts believe the real level of non-performing loans is closer to 35 per cent, of which less than half are recoverable.

"Many Mexican enterprises are insolvent at their current debt levels, but could become solvent if creditors decide to reduce the value of the debt," says Mr Alfredo Thorne at JP Morgan in Mexico City. "What is missing most of all are market mechanisms for extinguishing debt."

So far Mexican banks have resisted writing off debt because of the cost to their shaky balance sheets. Corporate debtors for their part have been reluctant to sell assets or accept a dilution of ownership in order to raise capital to repay their debts. The government, meanwhile, is resisting pressure to bail out the private sector because the fiscal cost of doing so would undermine this year's carefully balanced budget.

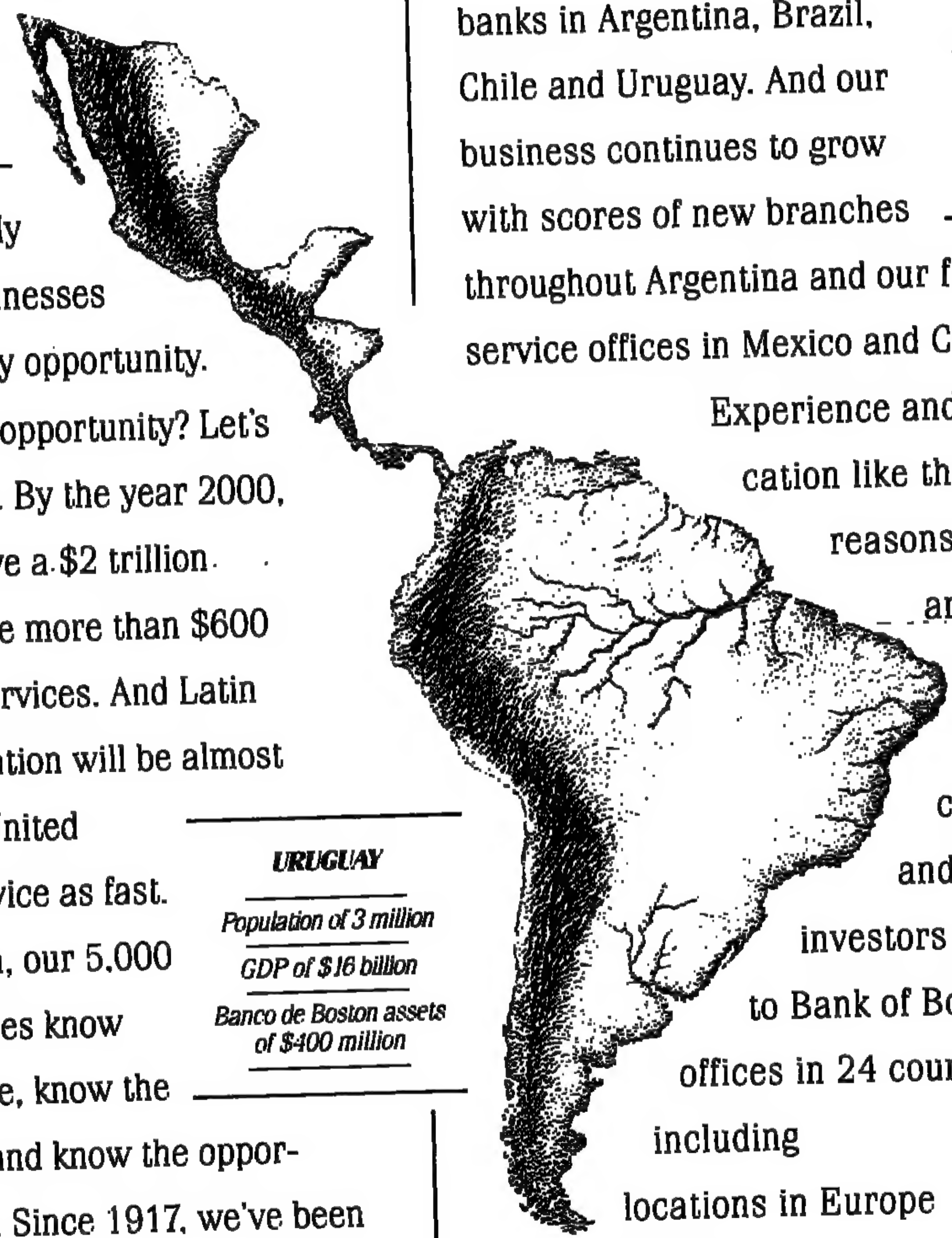
Mr Mauricio González at GEA believes the government could afford to run a fiscal deficit of no more than 2 per cent this year and channel public funds to debt forgiveness programmes. He thinks Mexican banks and corporations are too weak to shoulder the cost of debt write-offs alone.

"Unless debt relief plans are put into place urgently, corporations will continue to struggle with unpayable loans, there will be no resources for new investment, and Mexico will be trapped in a protracted recession," he says.

¿Qué Pasa?

All over Latin America, opportunity is what's happening. And Bank of Boston – or Banco de Boston as we're known throughout Latin America – is uniquely positioned to help businesses make the most of every opportunity.

ARGENTINA
Population of 34 million
GDP of $290 billion
Banco de Boston assets of $3.4 billion



Just how big is the opportunity? Let's look at a few numbers. By the year 2000, Latin America will have a $2 trillion economy and will trade more than $600 billion in goods and services. And Latin America's total population will be almost twice the size of the United States and growing twice as fast.

URUGUAY
Population of 3 million
GDP of $16 billion
Banco de Boston assets of $400 million

At Banco de Boston, our 5,000 employees know the place, know the people and know the opportunities. Since 1917, we've been helping consumers, local businesses, American companies and global investors become Latin American success stories with services that now range from credit cards and mutual funds to foreign exchange, emerging markets investment banking, credit, trade services, international cash management, worldwide custody and much more.

COLOMBIA
Population of 35 million
GDP of $75 billion
Banco de Boston assets of $100 million

MEXICO
Population of 94 million
GDP of $320 billion
Banco de Boston assets of $300 million

Our expertise and credibility have led to impressive growth. Banco de Boston is now one of the largest foreign banks in Argentina, Brazil, Chile and Uruguay. And our business continues to grow with scores of new branches throughout Argentina and our first full-service offices in Mexico and Colombia.

BRAZIL
Population of 166 million
GDP of $700 billion
Banco de Boston assets of $3.4 billion

Experience and sophistication like this are two reasons more and more international companies and institutional investors are turning to Bank of Boston. With offices in 24 countries, including locations in Europe and Asia, our international network is now the third largest of all U.S. banks. Whether you're in this hemisphere, Europe or Asia, let us be your link to Latin America. Call us at 617-434-9299. Just ask, "¿Qué Pasa?"

CHILE
Population of 14 million
GDP of $65 billion
Banco de Boston assets of $1.0 billion

1784
BANK OF BOSTON

Member FDIC

Stagnation hits island economy

New government policies aim to break the deadlock, writes Canute James

"Why should I go to the trouble of expanding the business," one of Jamaica's leading entrepreneurs asks,"I can put the money in the bank and earn 25 per cent interest. Or I can buy government paper and earn 50 per cent. There is no guaranteed income from going on with a business financed at 60 per cent. Inflation is killing us."

The Jamaican government – somewhat belatedly according to its detractors – is moving to create a calmer economic climate. It hopes this will ease the mounting concerns of local and foreign business. Amid disappointment that its progressive deregulation of the economy over the past five years has not attracted more investments, and with the economy stagnating, the administration is pressing ahead with two new measures it hopes will improve results.

It is negotiating the terms of a social contract, (similar to Mexico's "*pacto*") with organised labour and business, which it hopes will stabilise an economy which was rocked last year by labour disputes, inflation and a weak currency.

Economic planners are drafting the last paragraphs of an industrial policy intended to stimulate expansion and end a period of economic stagnation in the island of 2.5m people. When the social contract and the industrial policy are implemented, say government officials, conditions for local and foreign business will improve.

The government is expecting the new measures to provide specific targets for the exchange rate, money supply, the size of the fiscal surplus and overall economic growth, says Mr Percival Patterson, the prime minister. "We anticipate complementary action on the part of both workers' unions and their employers," he says.

Successful implementation of the social contract and the industrial policy will boost hopes for an end to several years of indifferent performance. For the moment the outlook for the economy remains uncertain. Government planners say preliminary figures suggest that gross domestic product rose less than 1 per cent last year, about the same as in 1994.

The government remains preoccupied with stabilising the exchange rate and curbing inflation. After slipping by 16.5 per cent since July, the Jamaican dollar has remained stable. Inflation last year was 24 per cent against 35 per cent in 1994 and 23 per cent in 1993.

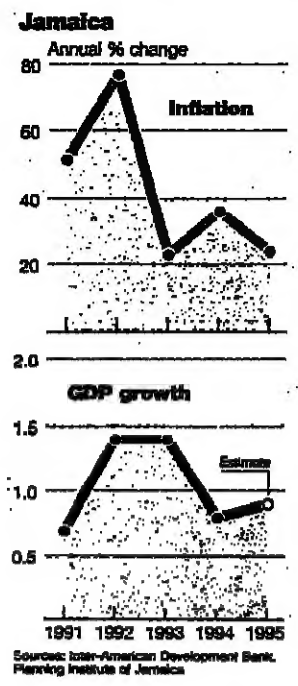
A series of wage-related strikes which affected all the island's bauxite refineries depressed ore output by 6.2 per cent to 10.9m tonnes. Stronger prices for bauxite and alumina boosted refining companies' earnings by 15 per cent, but government officials say the rise would have been bigger were it not for strikes.

JAMAICA

Poor weather has compounded the problems of export agriculture. The sugar harvest yielded less than expected. The need to meet commitments in Europe and the US meant that sugar had to be imported for the domestic market. The banana industry, its preferential access to the EU under threat as a result of US complaints about discrimination against Latin American producers, is not meeting its European quota.

Tourism has fared better than most other sectors. Visitor arrivals increased by an estimated 4 per cent in 1995, and continued growth is expected this year. Hoteliers report an increase in occupancy as low temperatures bring North Americans south.


Patterson: proposes new targets



Sources: Inter-American Development Bank, Planning Institute of Jamaica

Prospects for the economy hinge heavily on the success or failure of the government's commitment to improving industrial relations. Last year's strikes were partly caused by the size of the wage increases which unions were asking for.

Mr Omar Davies, the finance minister, argues that demands by unions for hikes of over 100 per cent were contributing to inflationary pressures. Union leaders counter by pointing to the inflation rate, saying this forced them to make seemingly large claims to guarantee meaningful wages.

The government considers it a positive development that Jamaica has ceased to be a borrowing member of the International Monetary Fund. Foreign reserves now provide 13 weeks of import cover, and are enough for further intervention to stabilise the currency, say bankers. This has had some negative implications for servicing the $3.5bn foreign debt. Bilateral creditors at the Paris Club are owed 47 per cent of this, but Jamaica can no longer approach them for new payment schedules. "When a country ends its borrowing from the IMF, it is a sign of balance of payments strength," says Mr Davies. "It is assumed that the country no longer needs rescheduling."

US embargo may stall foreign cash

The feud with the US will slow the country's progress, reports Pascal Fletcher


The government hopes that foreign investment and tourism revenues will support the country's climb back from a deep recession — Fergus Wilde

Cuba's economic planners, heartened by recent signs of improvement in the recession-hit economy, see 1996 as a year in which to consolidate. But prospects for a fast recovery are uncertain following the approval of new US laws tightening Washington's longstanding trade embargo against the island.

The US legislation, introduced on March 12 in reprisal for Cuba's shooting down of two US planes, is clearly aimed at obstructing foreign investment in the island. It casts a cloud over Cuban plans to seek stronger economic growth through continuing reforms and injections of foreign capital.

Foreign investment on the island has so far been relatively modest. The government reported 212 investment deals up until May 31, 1995, involving $2.1bn of agreed capital. But one independent estimate puts total funds actually committed or delivered since 1990 at only around $730m.

Nevertheless Cuba's opening to foreign capital, while controlled and limited, has been an important part of an economic reform process that began in earnest in late 1993.

The government introduced new legislation in September 1995 which codified foreign investment guarantees and opportunities but maintained a case-by-case approval process.

Most analysts believe the new US embargo legislation may at least have a temporary "chill" effect on foreign investment in Cuba.

It remains to be seen whether the US move, which is fiercely opposed by trading and investment partners of Cuba like Canada, the European Union (EU) and Mexico, will threaten the Cuban government's target for 1996 of 5 per cent growth in gross domestic product (GDP).

The government had been upbeat about the chances of emerging from the recent severe recession triggered by the collapse of trade and aid ties with the former Soviet Union. Officials said the economy had reversed its declining trend in 1994, when it registered GDP growth of 0.7 per cent, strengthening to 2.5 per cent in 1995.

But these figures should be measured against the depth of the recession in Cuba between 1989 and 1993, during which GDP fell by more than 34 per cent. Some foreign economists predict the Cuban economy will need to grow consistently for 10 years to recover its previous 1989 levels.

Cuba is pinning its hopes for sustained economic recovery in 1996 on a better performance from the fast-growing tourist sector and on the recovery of the sugar industry, one of the areas worst hit by the disappearance of the Soviet bloc. Both these sectors have received injections of foreign investment.

Cuban officials have expressed confidence that the 1995/96 sugar crop will achieve a 4.5m tonne target. This would represent an increase of more than 1m tonnes from last year's crop of 3.3m tonnes, the lowest Cuban sugar harvest in more than 50 years.

CUBA

The government is seeking a 50 per cent increase in net earnings from tourism, which had been producing around a third of annual gross income. Earnings in 1995 were around $1bn, up from $850m in 1994 and four times the 1990 level of $243m.

The authorities are also hoping to improve on 1995 advances reported in nickel mining – the result of mostly Canadian investment – production of vegetables, citrus, tobacco, steel, cement and fertilisers, domestic crude oil liftings, fisheries and electricity generation.

Cuban officials say the island desperately needs to generate more hard-currency income to overcome one major bottleneck – lack of access to sources of external financing, especially of the medium and long-term kind.

Obstacles to longer-term finance are the US's hostility to Cuba, which blocks its membership of multi-national bodies like the International Monetary Fund or the World Bank, and Cuba's outstanding hard currency debt, which stood at a total of $9.1bn at the end of 1994.

Cuba's central bank last year reopened what it called "informal contacts" with its main creditors – among them Japan, Spain, France, Canada and Britain – presenting them with a report on Cuba's economy compiled using IMF guidelines.

The report showed an improvement in Cuba's balance of payments current account from 1993 to 1994, including a reduction of the deficit on the current account balance to $81.3m from $371.6m. The trade deficit was shown as falling from $900m in 1993 to $642m in 1994. Cuban economists report the trade deficit in 1995 was under $600m. In the 1996 economic plan, exports are expected to grow by 20 per cent while imports are forecast to rise by 15 per cent.

Despite the latest US squeeze, Cuban authorities insist they will press ahead with financial reforms which have already sharply reduced the budget deficit, cut government subsidies, reined in excess Cuban peso liquidity and helped to strengthen the peso's value against the US dollar.

They are also implementing a programme to modernise the banking sector and are introducing a range of taxes that will initially focus on the growing hard-currency area of the economy, foreign businesses and a fledgling private sector formed by more than 200,000 self-employed workers, including restaurateurs and artesans.

Latin tiger roars ahead of rivals

Chile is emulating the performance of its Asian mentors, reports Imogen Mark

Sea harvest in southern Chile: salmon farming has overtaken fishmeal as the fishing industry's biggest exports earner — Sarah Proven

Chile achieved a record last year, when GDP growth, at 8.4 per cent, inched ahead of inflation of 8.2 per cent. It was the first time in well over two decades that inflation has fallen so low without being the product of a fierce recession.

The government, with its eye on the achievements of the south-east Asian "tiger" economies, aims to cut the figure to a steady 4 to 5 per cent by the end of the decade, with a target this year of 6.5 per cent.

In some ways Chile resembles Thailand or South Korea more than its Latin American neighbours. It has a high domestic savings rate, for example, 27 per cent of GDP last year, which helped it weather the storm after foreign capital inflows fell in other countries in the region in the wake of the Mexican crisis.

The central bank is convinced that its restrictions on capital inflows, though unpopular with Chilean financial institutions, helped prevent violent swings in stock market prices in 1995. So foreign portfolio investment, for example, will remain limited to authorised investment companies, with a one-year lock-in period and a 35 per cent capital gains tax. Direct foreign investors lost none of their enthusiasm for Chile however, and invested a record $3bn during the year.

Domestic interest rates rose at the end of last year and will probably stay high until at least the second half of 1996. The credit squeeze is meant to slow a consumer boom which took off in 1995, fuelled by easier access to consumer credit. So far there are no signs that the clampdown is harming investment.

High interest rates are partly to blame for the stock market's poor performance. It fell in real terms during 1995, and the private pension funds, which with $25bn under management are big investors, showed a negative return for the first time in their 14-year history.

The stock market was hit by sectoral factors too. It is dominated by the former state-owned electricity and telecommunications companies, which account for two-thirds of the $72bn market capitalisation. Both suffered from local uncertainties. The shares of several companies in both sectors trade on Wall Street in the form of American Depositary Receipts, where foreign shareholders' nervousness contributed to price volatility.

Telecom stocks, for example, fell last year as companies cut prices to the bone, trying to win market share in a newly-deregulated long-distance market. But this year they seem to

CHILE

be re-thinking their strategies and going for co-operation rather than confrontation in areas such as mobile telephony. Tariffs have also risen substantially this year, which will help earnings recovery.

Electricity stocks were hurt by the uncertainties surrounding the impact of the arrival, planned for 1997, of natural gas. But the prospect of an electricity glut and a price war now seems to have faded.

Other ADR companies which have big investments in Argentina were affected by the recession there. Nevertheless, the Argentine subsidiaries of the Chilean electricity companies turned in good results, and the companies are expanding in the region with Brazil in their sights as an important market for 1996.

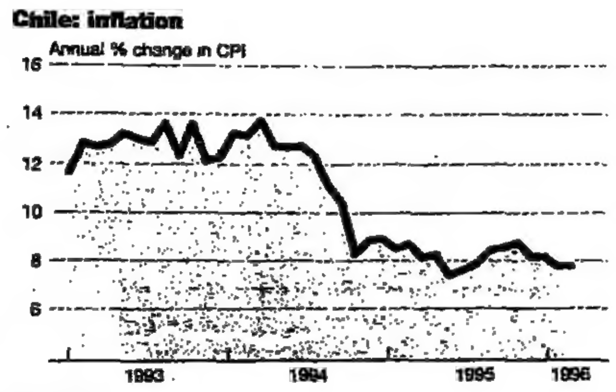
Companies in the forestry sector had record earnings from the high wood pulp prices in the first half of 1995. The forestry sector is one of Chile's big export earners, accounting for $2bn in sales last year. The sector is set to grow strongly over the next decade as plantings made in the 1970s mature.

Fishing is another important export sector, worth $1.8bn last year. Salmon farming, established only a decade ago, has already overtaken fishmeal as the industry's main export, along with table fish. Fresh fruit exports bring in another $1bn in income a year.

Copper still represents well over 40 per cent of Chile's exports. A handful of big new mines will come on stream over the rest of the decade. By 2000 Chile is forecast to produce 40 per cent of world copper output. And last year private mines outstripped state-owned Codelco for the first time since the beginning of the 1970s, when the company was created through nationalisation.

Thanks to a high copper price, Chile managed a record trade surplus of $1.4bn in 1995. But this year the price has begun to fall, and with lower wood pulp and fruit earnings, the trade balance may be more like $300m-$400m. There could even be a deficit if the economy fails to cool fast enough and continues to suck in imports at its current rate. Capital inflows and reserves will be high enough to cover it comfortably, however.

Chile: inflation



Source: Datastream

Politics just a sideshow

Sarita Kendall profiles an economy unfazed by the president's problems

The effect of the political crisis on the economy is becoming a big domestic issue. But for foreign investors and bankers an extra point on inflation rings more alarm bells than a president under siege.

Targets of 17 per cent inflation and 4.5-4.9 per cent growth in 1996 now appear unattainable. Independent economists are forecasting rates of 19 per cent and 3.8-4.3 per cent instead. Inflation for the first two months of the year reached 6.6 per cent, compared with 5.4 per cent in the same period of 1995, while the industrialists' association (ANDI) estimates that manufacturing production was down by 2-3 per cent in January.

"The fundamentals of the economy haven't really changed," says a banking source in Bogota. "It's not clear that the political situation will affect long term creditworthiness." This view coincides with the government thesis that even the US's decertification of Colombia's anti-drug efforts will have marginal economic consequences.

The national business organisations calling on President Ernesto Samper to step down, at the very least temporarily, are hardening their position. They want Mr Samper out of the way while Congress investigates his alleged involvement in the use of drugs money to fund his 1994 election campaign. Most consider that only Mr Samper's resignation will restore confidence in the government. A recent survey by the economic think-tank Fedesarrollo showed that businessmen consider that economic and political conditions for investment are at their lowest level for six years.

Mr German Holguin, president of a powerful business grouping in the Cali area, has proposed a private sector shut-down as a last resort if Mr Samper cannot be persuaded to resign.

Mr Holguin said that the verdict of a Congress whose credibility is tarnished by the reliance of many of its members on election funds from drug traffickers, will not resolve the crisis. Trade union leaders responded to the idea of a strike by saying that workers would take over industrial plants to prevent a shut-down from taking place.

Decertification by the US has few immediate effects, apart from the loss of Eximbank credits and a small amount of bilateral assistance. Economic leaders are afraid that trade sanctions could fol-

COLOMBIA

low if relations between the US and Colombia deteriorate any further. The US accounts for more than a third of Colombia's foreign trade and even a small increase in tariffs would be disastrous for a number of products, including flower exports.

Colombia's trade and current account deficits will peak this year at $3.7bn and $5.6bn respectively. Most of the 1995 current account deficit is underpinned by foreign direct investment. But in 1997, when the new pipeline linking the Cusiana oilfields to the coastal terminal comes into operation, oil exports are expected to jump to US$3.6bn.

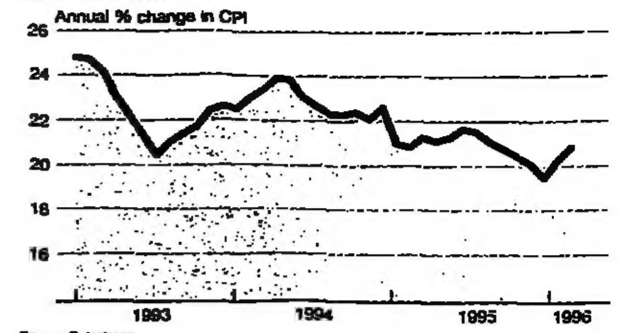
With US$8.4bn of international reserves, the central bank can afford to intervene to shore up the peso. Although devaluation has accelerated in response to the events of the last eight months, analysts believe the directors of the central bank will do their utmost to avoid moving the exchange rate band.

Company results for 1995 published this month have been better than expected, though the combination of political uncertainty and high interest rates has kept the stock market very quiet.

Most of the legal problems associated with privatisation have now been ironed out. Following the successful sale of Ecopetrol's shares in Promigas through the stock market, the government plans to crank up the pace, selling off other Ecopetrol subsidiaries and Banco Popular in the near future. The minister of finance, Mr Guillermo Perry, says that no dates have been set for the sale of state shares in the coal project at El Cerrejon and the Cerromatoso nickel plant.

In a move to revitalise popular support the president has been travelling the country trying to focus attention on social policy issues. But with unemployment rising and loans from multilateral lending organisations likely to be delayed by negative votes by the US, this could backfire. A UN report recently highlighted the failure of Colombia's social programmes to combat poverty and violence, despite stable economic growth.

Colombia: Inflation



Source: Datastream

Samper: business is hostile

Fallen star insists on austerity

A rising current account deficit is prompting tough action, writes Sally Bowen

After three years of electrifying growth, the Peruvian economy is experiencing a disappointing downturn. This has raised doubts over the sustainability of the programme and even the permanence of the economy and finance minister, Mr Jorge Camet.

January output plummeted over 4 per cent compared with the same month of 1995. Accumulated inflation for the first two months topped 2.8% making 1996's single-digit target almost certainly unattainable.

Other current indicators also paint a gloomy picture. Last year's trade gap topped $2.12bn – and that with exports at an all-time high of $5.57bn thanks to exceptionally buoyant international prices for minerals and fishmeal, which together account for more than 60 per cent of total exports.

The trade gap in turn pushed Peru's current account deficit into the red by a record $3.75bn, around 7.5% of GDP according to central bank calculations.

Accustomed to three years of uninterrupted good economic news (when GDP expanded an average of 8.4 per cent yearly) and the plaudits of multilateral organisations, Peruvians are asking themselves where they have gone wrong. After all, as one senior official in the economy ministry points out, "Our role has been reduced to sending a monthly spreadsheet to Washington. All we do is follow IMF directives."

Recent depressing figures may not be as bad as they first appear. January's GDP slump – and predictions of poor levels of production until at least mid-year – is the consequence of exceptionally high growth in late 1994 and early 1995. A pre-electoral spending spree had temporarily relaxed the tight fiscal and monetary discipline characteristic of the Fujimori

PERU

administration.

Discipline was restored in the second half of 1995 when steps were also taken to cool the overheated economy. Mr Camet has pledged that austerity will remain a central pillar of the programme. Output should thus improve in the second half, when comparative monthly growth rates last year were less exuberant. It is hoped inflation rates will fall back then.

Mr Camet promised in early March that the current account deficit "will be significantly cut back this year". The IMF, with whom Peru is currently trying to negotiate a second successive three-year extended fund facility, is likely to insist on further belt-tightening in the form of a higher primary surplus (probably around 1 per cent of GDP) and central government spending cuts.

It has been a sharp reminder to the better-off Peruvians, the main beneficiaries of deregulation and liberalisation, that recent economic successes are founded on a still-unequal economy: and one which remains excessively vulnerable to raw material prices.

Around half of Peru's 23m inhabitants still live below the poverty line. Per capita income, despite improvements in the past three years, is still only back at the levels of 1968.

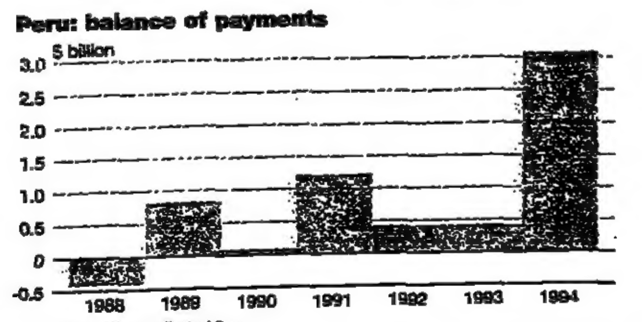
1996 promises to be a key year for the economic programme. It brings two important negotiations to reschedule substantial portions of Peru's $23bn external debt. Talks with the Paris Club of official creditors are due in April, when Peru hopes to reduce its debt service obligations from a projected $1bn to around $400m a year.

Early in the second half Peru expects to close a Brady accord with its commercial banking creditors. Some $10bn is involved and three standard types of Brady bonds will be offered. Prior to closure Peru will also buy back up to $1.4bn of debt it is believed to have acquired on the secondary markets since 1994.

Even if these two negotiations are successful, Peru's debt burden and servicing obligations will remain unusually high.

"President Fujimori is on the horns of a dilemma," says Mr Augusto Alvarez, of the Lima-based Apoyo research organisation, "how to reconcile the austerity demanded by the economic programme with the huge and urgent need for expenditure on social programmes and poverty alleviation."

Peru: balance of payments



Source: Central Reserve Bank of Peru

Launch of Real helps to lift spirits

Monetary controls have hit inflation. Deregulation could follow, writes Angus Foster

The behaviour of the Brazilian economy has been in keeping with the country's erratic personality. After showing signs of overheating in early 1995, it almost went into recession in the second half. This year is expected to be a mirror image, with growth accelerating as the year progresses, although the government hopes to smooth the bumps this time.

Brazil's new currency – the Real – is behind this stop-go performance. Introduced in June 1994 it has so far been extraordinarily successful in controlling inflation. Optimism about the currency helped fuel a consumer boom and led to shortages of some products. The sharp slowdown in growth last year was caused by the government's efforts to stop the overheating, which consisted of very high interest rates and a credit clampdown.

Although interest rate and credit policies have since been relaxed, economists are unsure how quickly the measures will take effect. Estimates for GDP growth this year therefore range from 2 to 4 per cent, down from 4.2 per cent last year and 5.7 per cent in 1994.

The fall in inflation has taken even government ministers by surprise. After reaching 50 per cent per month shortly before the launch of the Real, consumer price inflation fell to just 23 per cent for the whole of 1995 and annual inflation this year could fall below 15 per cent, its lowest level for more than 20 years.

There were several reasons for the fall. A good harvest kept food prices low. Reduced import tariffs stopped domestic manufacturers raising their prices. And confidence grew that the government would not allow the return of high inflation and indexing, a way to protect assets against inflation.

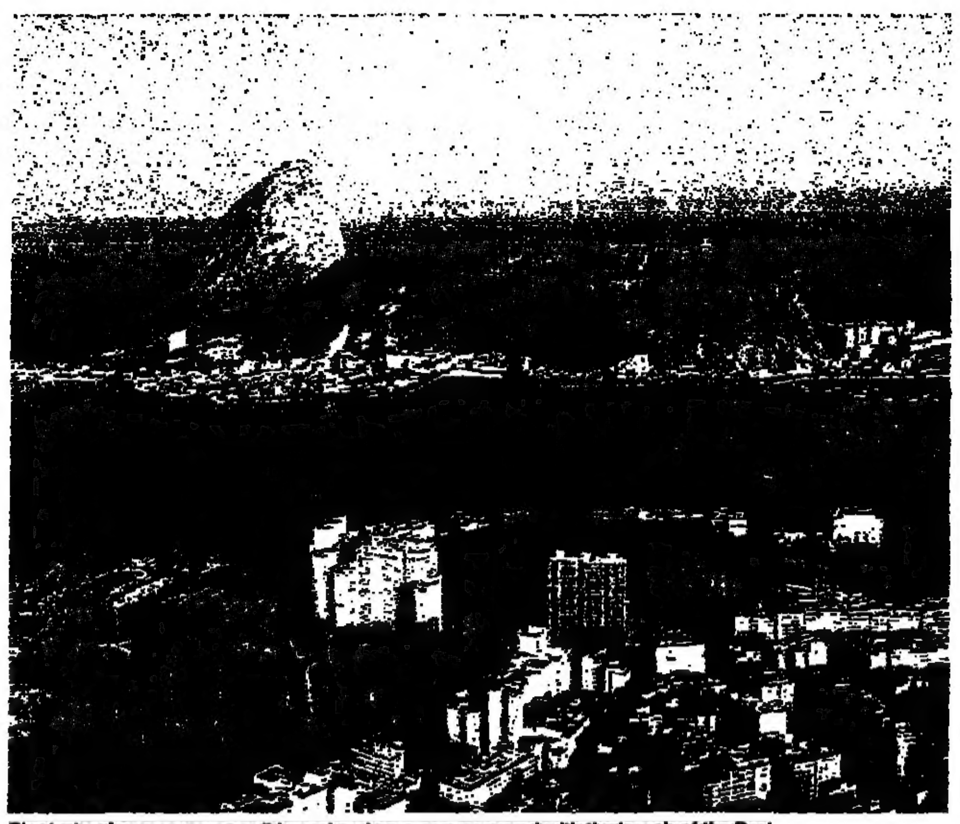
President Fernando Henrique Cardoso, who planned the Real when he was finance minister and was elected president largely thanks to its success, has faced new problems despite the drop in inflation.

Lower import tariffs and rising consumer demand led to a sharp jump in imports last year. An overvalued exchange rate, important to squeeze inflation out of some industries, left exports flat. As a result Brazil recorded a trade deficit last year of US$3.2bn, its first since 1980.

There is no consensus on the size of this year's deficit, which will in part depend on whether, and when, economic growth picks up. If the trade account remains in balance, Brazil's current account deficit will fall to about $15bn, or about 2.5 per cent of GDP. Such a deficit, well below Mexican levels when that country's currency crisis hit, would probably not be difficult to finance, given that strong international capital flows are coming from companies interested in the opening Brazilian market and its high real interest rates, currently about 12 per cent a year.

"The crucial variable is the current account deficit, and if it stays where it is, it can be financed," says Mr Lauro Vieira de Faria, editor of economic magazine Conjuntura Economica.

Government accounts are a more immediate worry. They



Rio de Janeiro: consumer confidence in urban areas recovered with the launch of the Real

BRAZIL

deteriorated sharply last year to record an operational deficit of nearly 5 per cent, the worst performance since 1989. The main reasons for the deterioration were increases in payroll costs for the federal and state governments, and interest costs on rising domestic debt.

The performance this year should be better, assuming the government keeps its promise not to raise civil service pay. Economists predict a 2 per cent deficit, assuming there is economic growth of 4 per cent and inflation of about 15 per cent. If the government gives in to popular calls for pay rises or other spending increases, its budget deficit would become a serious concern.

This is because the success of the Real has so far been due to monetary rather than fiscal anchors. It has been secured by high interest rates and an overvalued exchange rate while the government has not yet tackled its spending difficulties.

Mr Cardoso has presented constitutional reforms to modernise the social security, civil service and tax systems, to cut government spending and to reduce the state's involvement in the economy through privatisations. So far few of the reforms have been passed by Congress. More controversial changes like tax reform may take some years to approve and put into force.

The ultimate success of the real will remain in doubt until these reforms take effect, allowing the government to relax its monetary policies.

For the private sector, elation at inflation's fall has been tempered by irritation at Congress' slow pace in approving reform. Some companies, especially those producing basic consumer goods, foodstuffs and household appliances, have seen sales soar as consumer confidence returned. Other sectors, especially banks, are having to live without the windfall gains they enjoyed under high inflation.

All companies agree the priority now is to reduce the "Brazil cost", a phrase used to describe the extra cost of producing in the country because of bureaucracy and poor infrastructure. Companies have done much since 1990 to improve productivity, which in Sao Paulo's industry has risen 30 per cent thanks to more efficient work practises and lay-offs. Companies now say the government must do its part too, reducing the nearly 60 taxes and contributions which burden companies, and cutting Brazil's interest rates – among the highest in the world – to encourage new investment.

A long slog lies ahead

Exports are leading growth as job-loss fears hit consumer confidence, writes David Pilling

Argentina, one of the world's fastest growing economies from 1991-94, must this year concentrate on the unromantic task of slogging its way out the recession that gripped it in 1995.

In the first weeks of 1996 officials and investors alike have scoured the economic landscape for signs of recovery. Although bank deposits have now recovered to the levels reached prior to Mexico's devaluation – after plunging a whopping $8bn last year – there are still few signs of a revival. Last year the economy contracted by an estimated 3 per cent.

In January, the much-followed FIEL industrial activity index fell 9.3 per cent against the same month in 1995. This, plus stagnation in the vital carmaking sector and sharply falling cement sales, appears to have outweighed the higher demand for public services spotlighted by the government as signalling recovery.

Mr Domingo Cavallo, economy minister, is nevertheless sticking to the official 5 per cent growth forecast for 1996. In headier moments he has predicted a swift return to the growth track of the early 1990s when the economy was hurtling along at an annual 8 per cent.

But many private economists, who believe that this phase of consumption-driven growth is finished, are more cautious. The consensus in the private sector is for growth this year of 2-4 per cent.

The great surge in demand that followed the stabilisation of prices in 1991, after two periods of hyperinflation, is unlikely to recur, say analysts. Fear of unemployment, a relatively new phenomenon in Argentina, is a big factor.

Last year the jobless rate peaked at 18.6 per cent, treble that of 1991. Concern over job security, plus stagnant or falling wages, means that Argentines are unlikely to return quickly to their free-spending ways.

Consumer-led growth is also likely to be curbed by another new phenomenon: deflation. In February, the fifth monthly fall in retail prices in a year brought the 12-month inflation rate to just 0.3 per cent, the lowest in half a century. If the government had not raised value added tax by three points to combat falling revenue last year, inflation would almost certainly have been negative. That underlying deflation is likely to slow any rapid return to consumer spending, as Argentines postpone purchases in the hope that prices will drop further.

This means growth will tend to be led by exports rather than domestic demand. Exports grew by a startling 32 per cent last year – reversing a trade deficit of 5.8bn to a surplus of nearly $1bn – and will probably rise another 8-10 per cent in 1996. The current account deficit, the size of which provoked nagging comparisons with Mexico, shrank from 3.6 per cent of GDP to about 1 per cent.

But even such impressive gains – the result of greater industrial efficiency as well as transitory factors such as Brazil's consumer boom – are unlikely to be enough to fuel the growth levels predicted by Mr Cavallo. Exports still only

ARGENTINA

make up 7.5 per cent of GDP, hardly enough to move the economy towards double-digit expansion.

More plausible, say economists, is the prospect of several years of modest growth in the 3-5 per cent range – less spectacular than in the early 1990s, but more sustainable.

Such rates are unlikely to provide rapid solutions to Argentina's deep social problems. The search for greater export competitiveness could even sharpen the already dramatic reorganisation of Argentine industry.

It could have been worse. Argentina last year proved wrong the dire predictions of many analysts by surviving the Mexican-sparked crisis without devaluing or abandoning economic liberalisation. The currency board system, a self-imposed straitjacket in place since 1991 that removes discretionary powers from the monetary authorities, passed its test of fire and emerged with peso-dollar parity intact.

As a result Argentina is already being rewarded by international investors. Direct investments in the auto, petrochemicals, oil and gas and telecommunications sectors continue to mount, while Argentina's access to international capital markets has been re-established. Unlike last year, when Buenos Aires was bailed out by the IMF, it will this year be able to rely on voluntary capital flows.

A recent report from Union Bank of Switzerland demonstrates the new optimism: "The return of foreign capital has vindicated economy minister Domingo Cavallo, who in 1991 gambled his reputation and Argentina's future on the notion that his country would be rewarded in the long run for rigorous and consistent economic policies."

In the medium term some economists are hoping that Argentina can wean itself off foreign capital flows altogether. Many believe the best hope for this lies in the private pension fund system which has amassed a $3bn pool of savings in 18 months.

Once those funds reach a critical mass, enough to make a genuine contribution to economic growth, Argentina will have embarked on a Chilean-style path of sustainable development, the optimists say. Only then will the detractors, who see the 1991-94 boom as little more than a flash in the pan, be silenced.

The Buenos Aires stock exchange is luring foreign investment

Print and be damned

Raymond Collitt describes how the government has stoked inflation by printing money

Once considered one of the wealthiest and most developed countries in Latin America, Venezuela is today struggling to jump-start its economy and avoid defaulting on nearly one-third of its $26bn foreign debt.

A banking crisis in 1994, which cost the state as much as $4.6bn, strained state coffers and plunged the economy into a prolonged recession.

The turning point, says economic analyst Mr Domingo Fontiveros, was when the government turned to the printing press, rather than international capital markets, to finance the banking crisis. Deficit spending and rising inflation led to capital flight and in consequence to a drop in monetary reserves and a depreciation of the national currency, the bolivar.

Foreign exchange controls implemented in June of 1994 and tightened in late 1995 have managed to halt capital outflow and stabilise reserves at around $10bn (of which $5.5bn are operational). Yet restricting the supply of foreign exchange has simply caused demand for dollars to spill over into the parallel foreign exchange market. Buying Brady bonds for bolivars in Caracas and selling them for dollars in New York has become the only way for many businesses to avoid cutting back operations. Reflecting the shortage of foreign currency, the Brady bond market's implicit exchange rate since January has sky-rocketed to virtually twice the official rate of 290 bolivars to the dollar.

Inflation is likely to top 100 per cent in coming months. Some government officials admit that Venezuela could suffer hyper-inflation if corrective action is not taken.

Today Venezuela has a central government borrowing requirement (including the central bank and the bank insurance institute Fogade) estimated at 10 per cent of GDP. Though the government may be able to stick to its gradualist approach for some time longer due to its sizeable oil revenues – worth over $1bn per month – "it must adopt structural reform measures and reach an agreement with the International Monetary Fund (IMF) immediately," says Mr Fontiveros.

In the short term these measures would include lifting foreign exchange controls, raising utility rates, eliminating petrol subsidies, and increasing interest rates. At $0.03 per litre petrol is cheaper than bottled water. Beyond immediate measures to eliminate macroeco-

VENEZUELA

nomic distortions, the bloated state sector's payroll will also have to be trimmed. Proposals to cut spending and increase revenues have been on the table for some time yet have prompted little interest with a populist president fearful of social unrest in response to belt-tightening.

Rekindling privatisation plans, which have been tied up in red tape, could in part alleviate the government's financial burden. Despite an unclear regulatory framework, outstanding debt issues, and a poor overall investment climate, the government may push ahead with at least a few sales this year. Mr Robert Bottome, head of the economic consultancy Veneconomia, believes possible sales this year include the Margarita island power utility, a remaining 49 per cent share in the telecommunications company CANTV, as well as three aluminium companies.

The current poor market means that the government may not receive the highest possible price for the disposals. It could still raise as much as the $1bn forecast from privatisation in the 1996 budget.

According to Alberto Poletto, president of the Venezuelan Investment Fund (FIV), the state privatisation entity, "current economic difficulties do not make these investments less attractive long-term".

Even if the government moves ahead with structural reform and reaches a standby agreement with the IMF, economic recovery will take time. For 1996 will most certainly be another year of no or little growth, despite a rapidly expanding petroleum industry. Even with the budget under control, the momentum of inflation will continue well into the second half of 1996. In fact economic analysts predict that austerity measures, if they do come, would slow growth and temporarily fuel inflation before recovery sets in.